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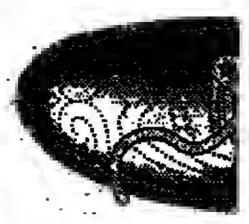

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FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY SEPTEMBER 30 1993 — D8523A

US eases high-tech export controls

Clinton announces increase in subsidised financing and sets goal of boosting overseas sales 40% by 2000

By Nancy Dunne in Washington and Louise Kehoe in San Francisco

PRESIDENT Bill Clinton yesterday announced a sweeping liberalisation of export controls on computers and other high technology products and an increase in subsidised export financing. He set a goal to boost US exports from about $700bn in 1992 to $1,000bn by the year 2000.

The long-awaited initiative was developed by Mr Ron Brown, US commerce secretary, and Mr Ken Brody, chairman of the US Export-Import Bank.

Mr Clinton said at a White House ceremony: "I don't believe a wealthy country can grow much richer... without expanding exports."

The initiative was ordered by Congress, which used regularly to badger the Reagan and Bush administrations to ease US-created barriers to exports. Congress forced the setting up of a trade promotion co-ordinating committee (TPCC), which made 65 recommendations putting much emphasis on boosting exports of small and medium-sized businesses. These are expected to do most of the decade's job creation.

The reforms to the export licensing regime alone will reduce regulation on $35bn of exports. The proposed liberalisation should significantly increase the threshold of performance for computers that can be exported without special licences.

Immediately, exports of computers with performance up to 194m theoretical operations per second (MTOPS) will be decontrolled for all countries except the former eastern bloc, China and a few other destinations. This frees exports of computer workstations and high performance personal computers.

Then, if there is agreement from members of Cocom – established in 1951 by Nato countries to co-ordinate policies on restricting the export of products with potential military and strategic value – controls would be removed from exports of computers with performance of up to 500MTOPS even for the former eastern bloc and China.

This second phase of liberalisation would decontrol a much broader range of computer equipment including multi-processor servers, high-end workstations, minicomputers and some mainframe computers.

In a move expected to ease the way for Cocom approval of the computer export liberalisation proposals, the US will also propose the removal of prior export licensing requirements for most telecommunications products.

Germany has been seeking the removal of controls on fibre-optic telephone lines which it wants to sell to Russia. Under the US proposal it appears this sale could go ahead. However, many details have yet to be revealed.

In addition, the US administration has updated its definition of supercomputers, which are used in research laboratories. Under the new definition, the performance threshold of a supercomputer is raised from 195MTOPS to 2,000MTOPS. Today's most powerful supercomputers have performance levels of over 20,000MTOPS.

Supercomputers will remain subject to export controls, but the new definition will exclude a broad range of computers from these controls.

In export financing, the administration will become more aggressive in challenging competitors providing subsidised financing. Mr Brody said Eximbank would switch funds from other programmes to speud $150m a year on subsidies. This could produce $600m in new sales.

He said the US would seek to strengthen current limits on subsidised export financing agreed with other industrialised countries.

Mercedes set to choose Alabama for first US plant

Mercedes-Benz, the German luxury car company, is expected to announce today that it will locate its first US car manufacturing plant, costing $300m, in the state of Alabama. The decision ends the most heated competition in the past year between US states over the site of a greenfield manufacturing investment by a foreign company. Page 23

Opec deal: Kuwait agreed to join the other 11 members of the Organisation of Petroleum Exporting Countries in a hard-fought agreement aimed at halting the sharp downward trend in oil prices. Earlier report, Page 18

Victory for John Smith: John Smith, UK opposition leader, won a narrow victory in his battle for greater democracy in Labour party links with trade unions. At the annual party conference, he gambled his leadership in support of a motion proposing one-member-one-vote in selection of parliamentary candidates. Page 10

Marchais to step down after 20 years

Veteran French Communist leader George Marchais, 73, one of Europe's last orthodox hardliners, is to step down in January because of poor health after two decades as head of the French Communist Party. He has a history of heart trouble and is recovering from a hip operation. When he took the helm in 1972, the communists were the dominant force on the French left. Page 2

Yeltsin frees bread prices: Bread prices in Russia are to be freed from tomorrow as one of a range of economic liberalisation measures decreed by President Boris Yeltsin, who is using his banning of parliament to push through changes. Page 18

Mazda losses bigger: Mazda, the Japanese carmaker 24.5 per cent owned by Ford of the US, said losses this year would be substantially larger than forecast, and it would pass the dividend for the first time. Page 19

Scepticism at Lockerbie move: Libya dropped its objections to the two men accused of the 1988 Lockerbie bombing standing trial in Scotland but British reaction was sceptical. Page 6

Neo-Nazi jailed: Austrian right-wing extremist Gottfried Kuessel was convicted in Vienna of organising a neo-Nazi group and ordered to serve 10 years in prison in the toughest anti-Nazi sentence handed down in recent years. He is to appeal.

Japan to import rice: Japanese premier Morihiro Hosokawa said his country will be forced to import rice after typhoons and an unusually cold summer left production about 20 per cent below the average annual harvest. Page 7

Blow to GM: General Motors said its third-quarter US production would be 70,000 vehicles below earlier estimates because of problems fitting new parts into its models. Page 23

Insider scandal acquittal: A senior aide to the late Prime Minister Pierre Bérégovoy was acquitted in France's biggest insider trading scandal but fines were imposed on seven businessmen. Page 2

Riots after Pakistan murder: Gunmen in southern Punjab ambushed and killed a close associate of Pakistan's former prime minister Nawaz Sharif, sparking riots that threatened to disrupt next month's elections. Page 6

Alcatel stable: Alcatel Alsthom, the French telecommunications and engineering group, resisted the impact of recession in some of its principal markets to announce stable first-half net profits of FFr3.01bn ($529m). Page 19

Drive for cleaner cars: US car manufacturers joined the federal government in a research programme aimed at developing cleaner cars with three times the fuel economy of today's models. Pages 4 and 23

Longer summer: Continental Europe will get an extra month of summertime from 1997, bringing it into line with Britain and Ireland, under an EC plan to adjust clocks in unison. Page 2

Pachinko a winner: Pachinko, a cross between pinball and gambling and one of Japan's most popular games, appears to be surviving the recession better than most industries. Page 18

■ STOCK MARKET INDICES

FT-SE 100:	3030.1	(-6.8)
Yield	3.87	
FT-SE Eurotrack 100	1288.31	(-0.65)
FT-A All-Share	1503.92	(-0.2%)
Nikkei	20,077.41	(-95.31)
New York: lunchtime		
Dow Jones Ind Ave	3562.67	(-3.35)
S&P Composite	460.09	(-1.44)

■ US LUNCHTIME RATES

Federal Funds:	$3\frac{5}{16}$%
3-mo Treas Bills: Yld	2.972%
Long Bond	$103\frac{13}{16}$
Yield	5.97%

■ LONDON MONEY

3-mo Interbank	6%	(same)
Liffe long gilt future:	Sep $113\frac{1}{8}$	(Sep $113\frac{11}{32}$)

■ NORTH SEA OIL (Argus)

Brent 15-day (Nov)	$17.03	(16.625)

■ Gold

New York Comex (Dec)	$354.7	(357.2)
London	$352.2	(356.2)

■ STERLING

New York lunchtime:		
$	1.513	
London:		
$	1.5125	(1.5165)
DM	2.44	(2.4525)
FFr	8.5275	(8.565)
SFr	2.1375	(2.145)
Y	159.0	(159.5)
£ Index	79.9	(80.1)

■ DOLLAR

New York lunchtime:		
DM	1.611	
FFr	5.6345	
SFr	1.4105	
Y	105.25	
London:		
DM	1.6135	(1.6175)
FFr	5.6375	(5.6475)
SFr	1.4135	(1.414)
Y	105.15	(105.25)
$ Index	64.7	(65.0)

Tokyo Close Y 105.23

Austria	Sch30	Germany	DM3.30	Malta	Lm0.60	S.Arabia	SR11		
Bahrain	Din1.250	Greece	Dr300	Morocco	MDh13	Singapore	S$4.10		
Belgium	BFr65	Hungary	Ft185	Neth	Fl 3.75	Slovak Rp	KSL45		
Bulgaria	Lw25.00	Iceland	IKr215	Nigeria	Naira45	Slovenia	SLT220		
Croatia	HRD5700	India	Rs40	Norway	NKr16.00	South Africa	R12.00		
Cyprus	C£1.00	Israel	Shk5.90	Oman	OR1.50	Spain	Pta210		
Czech Rp	CZK45	Italy	L2700	Pakistan	Rs35	Sweden	SKr15		
Denmark	DKr15	Jordan	JD1.50	Philippines	Pso45	Switz	SFr3.30		
Egypt	E£4.50	Kuwait	Fils.600	Poland	Zl 22,000	Syria	S£50.00		
Finland	Fm12	Lebanon	US$1.25	Portugal	Es215	Tunisia	Din1.250		
France	FFr8.00	Lux	LFr65	Qatar	QR12.00	Turkey	L8000		
						UAE	Dh11.00		

Blockbuster deal boosts Viacom offer for Paramount

By Martin Dickson in New York

VIACOM, the US cable television company, yesterday gained a new ally and additional financial muscle in its battle to take over Paramount Communications when Blockbuster Entertainment agreed to invest $600m in Viacom.

The deal will give Viacom greater flexibility to increase its agreed offer for Paramount, which is not as large as a rival, hostile offer from QVC Network, the cable TV home shopping business headed by Mr Barry Diller, a prominent film industry figure.

Viacom, with interests ranging from cable systems to the MTV pop music channel, declined to comment on market speculation that it had been talking to two other companies – regional telephone company Southwestern Bell and cable systems group Cox Enterprises – in an effort to secure additional funding.

Blockbuster is a fast-growing Florida-based company which is by far the largest home video retailer in the US and also runs two large chains of music stores.

It has also been moving into film production, buying large interests in the Spelling Entertainment and Republic Entertainment film companies, which are in the process of merging.

Its investment in Viacom – and theuce, it hopes, in Paramount – reinforces this trend. Paramount owns one of the last large Hollywood studios which is not part of a conglomerate.

Blockbuster is buying $600m of cumulative convertible preferred stock which is convertible into Viacom's class-B non-voting common stock at a price of $70 a share.

If the Viacom-Paramount merger does not go through by next August, either Blockbuster or Viacom can reduce the investment to $300m.

Mr Wayne Huizenga, chairman of Blockbuster, who will join the Viacom board, said the new "strategic relationship" between the two groups would allow both to capitalise on their highly complementary businesses. It was, he added, a strong vote of confidence in the Viacom-Paramount merger.

Wall Street analysts saw Blockbuster's move into production partly as defensive action to protect the company from a potential loss of video rental business when new technology allows consumers to call up movies on demand over inter-active home entertainment systems.

Mr Sumner Redstone, chairman of Viacom, said the two companies would pursue potential ways to benefit from the new relationship after the merger with Paramount.

World stocks, Section II

Seat chief resigns over VW demands for cuts

By Christopher Parkes in Frankfurt and Peter Bruce and Tom Burns in Madrid

VOLKSWAGEN'S demands for harsh cuts at its Spanish subsidiary led to the resignation yesterday of Mr Juan Antonio Díaz Alvarez, Seat chairman and a member of the German automotive group's board.

They may also lead to political and industrial turmoil in Spain, a senior government official warned.

Mr Díaz Alvarez will leave today, two days after the VW group board publicly rejected as inadequate his scheme to cut 5,000 jobs at Seat. He returned to the company's Barcelona offices yesterday "completely shattered", an aide said.

"I have become an obstacle to the future of Seat and that is the last thing I want to be," he told his closest colleagues.

It is believed that VW wants to close the Zona Franca factory in Barcelona and cut up to 9,000 jobs. Losses on that scale, at Spain's biggest manufacturing employer, would be a catastrophe for Barcelona, the government official said. Unemployment in the area is already around 20 per cent.

Consequent labour and political unrest might also wreck the minority Madrid government's efforts to push through its contentious budget and its attempt to negotiate an incomes policy that already demands considerable sacrifices from wage earners. Catalonia holds the balance of power in the Spanish parliament.

Alvarez: 'I have become an obstacle to the future of Seat'

The official said there was no possibility of financial aid from Madrid and added that the government viewed as "suspicious" Seat's sudden plunge into deep loss.

Mr Ferdinand Piëch, VW chairman, who has also ruled out any further funds after this month's DM1.5bn emergency cash injection, was allegedly caught unawares when he was told last month of a forthcoming loss of DM1.25bn this year.

His attitude to Mr Díaz Alvarez was demonstrated at a press conference at the International Frankfurt motor show this month, when the Seat chairman was abruptly silenced as he attempted to explain the situation.

The company has suffered as car sales across Europe have fallen, but it has also been severely affected by the need to finance investment credits taken out in D-Marks and US dollars in heavily devalued pesetas.

Mr Díaz Alvarez, who cancelled a planned meeting with the Spanish industry minister yesterday afternoon, was one of a handful of the old-guard directors still in power at VW.

Most of the old group board, including the highly regarded Mr Daniel Goeudevert, Mr Piëch's deputy, has gone since the new chairman arrived in January.

Mr Piëch told the FT recently that he had been advised to clear out all the old management, but had not done so. As a result, there were still "dead bodies in the cellar".

Speculation is now mounting about other imminent changes on the board. The name most often mentioned is that of Mr Werner Schmidt, another long-serving director, currently finance chief.

Bosnian Serb leader Radovan Karadzic (right) and president of the parliament Momcilo Krajisnik at a service yesterday for Serb soldiers killed in the war in Bosnia. Another winter of civil war, Page 3 AP

US faces row over Saudi jet order

By Paul Betts, Aerospace Correspondent, in London

THE European Commission is expected to accuse the US next week of breaching international trade agreements to secure for US manufacturers a $6bn order for up to 60 aircraft from Saudia, the Saudi Arabian airline.

European Community trade negotiators are expected to lodge a complaint with US trade representatives at a meeting in Washington next week, claiming that the US has broken last year's Gatt civil aircraft accord by offering Saudi Arabia special inducements to acquire US rather than European Airbus airliners.

Mr Jean Pierson, chief executive of the European Airbus consortium, is understood to have written to Sir Leon Brittan, the EC trade commissioner, to alert him of a visit to Saudi Arabia by Mr Federico Peña, the US transportation secretary, at the end of this week.

Mr Peña is going to Saudi Arabia today, with Mr David Hinson, administrator of the US Federal Aviation Administration, to sign a new bilateral aviation agreement between the two countries. He is also expected to discuss with Saudi officials the imminent Saudia aircraft order.

The EC is worried that the US is exerting political pressure on the Saudi government to award the lion's share of the $6bn aircraft order to US manufacturers, including Boeing and McDonnell Douglas.

The US Export-Import Bank has already announced that it would provide loan guarantees to finance purchase of US airliners.

In his letter, Mr Pierson drew Sir Leon's attention to the risk of the US trying to link the new aviation agreement with a Saudia order for US-made aircraft, according to EC trade sources.

"The opportunity of linkage of the two issues is self-evident," Mr Pierson wrote. In turn, that would breach article 4 of the Gatt civil aircraft code, which stipulates that governments should not "exert unreasonable pressure" to support their manufacturers to win export orders.

The award of airline landing and route rights is included in the Gatt list of prohibited inducements.

The EC complaint coincides with a concerted campaign launched this week by British Aerospace, Deutsche Aerospace and Aérospatiale of France, the three leading European aerospace companies in the Airbus consortium, against what they claim are US efforts to undermine the Gatt aircraft agreement.

Competition for the Saudia order has been particularly intense because of the scale of the deal.

CONTENTS

Spain's steel aid backed by Brussels

By Andrew Hill in Brussels

THE European Commission has backed Spanish government plans to restructure the steel industry in the north of the country.

Spanish officials in Brussels said yesterday they were happy with the decision to recommend approval of Ecu2.82bn (£2.16bn) of aid to CSI, the state-owned holding company.

But the Commission's decision must now be approved unanimously by EC member states, two of which – Germany and Italy – are still negotiating with Brussels about subsidies to their state-owned steelmakers.

In particular, the Commission faces a damaging political row with Germany if it does not approve plans to subsidise the building of new steelmaking capacity at the Ekostahl plant in east Germany.

Mr Günter Rexrodt, the German economics minister, acknowledged yesterday that his efforts to block new subsidies for the Italian and Spanish steel industries had caused friction between Germany and its EC partners.

Bonn has argued that because the aid to Ekostahl would be given only once in connection with the privatisation of the former communist companies, it could not be placed in the same category as subsidies for Spanish and Italian steel companies.

"We have good arguments why Eko is different," Mr Rexrodt said yesterday.

Industry ministers will next meet in November for what could be their only chance to vote on the Italian, Spanish and German subsidies. The Commission's ambitious plan to revive the ailing EC steel industry will fail if the subsidy issue is not resolved, because private steelmakers will not agree to capacity cuts if the market still appears to be distorted by state aid.

The Commission said yesterday it hoped that by approving the Spanish plan, the whole steel industry would be encouraged to present firm restructuring proposals. The original deadline for the submission of capacity reduction plans was today.

The Commission's reluctance to agree the original plan for CSI a year ago angered Basque and Asturian steelworkers, who would have borne the brunt of cuts.

Formal approval of the programme still depends on the fulfilment of tough conditions.

The Spanish authorities must make "irreversible" cuts in capacity; bring forward closure of the Anzio steel plant; and convince Brussels that a majority of funding for building new capacity at Sestao comes from private investors.

Meanwhile, private producers have been driven into loss by the effects of recession, overcapacity and low prices.

■ Mr Karel Van Miert, the EC competition commissioner, is set to propose a formal investigation into a FFr2.5bn (£280m) capital injection for Bull, the French computer manufacturer, granted earlier this year by the previous French government.

He would ask commissioners to back his call for an inquiry next week.

Only last year, Brussels approved FFr6.6bn of subsidies for Bull, on the grounds that FFr2.6bn was research funding, and the rest was justified to help return the company to profitability.

Big fines for Paris insider trading

By David Buchan in Paris

FRANCE'S biggest insider trading trial ended yesterday when a Paris court imposed fines of up to FFr25m (£2.9m) on seven businessmen and confiscated FFr30m in illicit profits from Pechiney's 1988 purchase of Triangle, owner of American National Can.

But the court acquitted Mr Alain Boublil, a former aide to the late prime minister Pierre Bérégovoy, giving him "the benefit of the doubt" that he tipped off others to the fact that state-owned Pechiney was about to make its US purchase.

The court concluded that Mr Samir Traboulsi, a Lebanese-born financier, on whom it imposed a two-year suspended sentence and a FFr25m fine, had other contacts with France's socialist establishment that could have made him the chief conduit of the leak. Mr Traboulsi is to appeal, as is Mr Max Théret, founder of the FNAC record and book shops, who received a similar two-year suspended sentence, a fine of FFr2.5m and confiscation of FFr8.5m in profits that he and an associate made on the deal. The judgment comes on the eve of France's large-scale programme of privatisation, for which Pechiney is a candidate.

The Commission des Opérations de Bourse (COB), the watchdog of the Paris stock exchange, has held up the Pechiney investigation as a model of co-operation among international regulators.

The US Securities and Exchange Commission detected a wave of foreign purchases of Triangle shares in mid-November 1988, when the US stock was trading at around $10 a share and just before Pechiney, with the knowledge of Triangle's top executives, launched a $56 a share bid. US regulators passed their suspicions to the COB, who also drew on information from the London Stock Exchange authorities. In all, some FFr45m in illicit profits were estimated to have been made.

Mr Bérégovoy, who was finance minister at the time of the Pechiney-Triangle deal, took the unusual step of making the COB dossier public in February 1989 before transferring it for prosecutors to act on. Last May Mr Bérégovoy shot himself, shortly after he lost the elections and after he had appeared, in private, before Pechiney investigators.

One of the main beneficiaries of the Pechiney-Triangle dealing was the late Mr Roger-Patrice Pelat who died in 1989 after being indicted for insider trading.

A key element in the prosecution case was a lunch on November 13 1988 at a well-known Lebanese-run restaurant in Paris which was hosted by Mr and Mrs Bérégovoy to celebrate their wedding anniversary and to which Mr Pelat, Mr Traboulsi and Mr Boublil were all invited.

In his defence, Mr Traboulsi maintained that he would not be so stupid as to jeopardise, by trading on his own account, his FFr60m commission from Triangle for acting as official intermediary between Pechiney and Triangle. However, the court said yesterday it was "certain" that Mr Traboulsi had tipped off a Swiss-based Lebanese financier, Mr Charbel Ghanem, who was himself yesterday stripped of FFr21m of his profits, as well as getting a suspended prison term and a fine.

Associated Press

Acquitted: Alain Boublil, former chief aide to Pierre Bérégovoy

Rise in French unemployment rate slows

By John Ridding in Paris

THE rise in French unemployment slowed markedly in August, with the rate of joblessness remaining steady at about 11.7 per cent, according to official figures released yesterday.

The figures showed that there were 3.22m people out of work in August, up 4,000 from July. The average monthly increase in unemployment this year has been about 30,000, creating a serious political problem for the government, which has committed itself to curbing the rise in joblessness.

A spokesman for the Labour Ministry welcomed the August figures, arguing that they showed the rise in unemployment is beginning to stabilise. Private sector economists also said the figures were better than expected but predicted that the rate would continue to rise until the end of the year.

Mrs Marie Owens-Thomsen, economist at Midland Global markets, said yesterday's figures suggested that the trend rate of increase had stabilised, but that the rate of unemployment would probably reach 12.5 per cent by the end of December. The release of the figures coincides with the opening of the parliamentary debate on the government's five-year jobs plan.

The plan, introduced on Tuesday, aims to make working hours more flexible, encourage part-time work and reduce the costs to employers of hiring new workers. However, it has been criticised for not going far enough on tackling labour market rigidities.

End of the road for Marchais – the hardliner who preferred égalité to liberté

France's communist chief to step down

Reuter

Marchais: 20 years in charge

By Alice Rawsthorn in Paris

MR Georges Marchais, France's veteran Communist party leader, said yesterday he would step down next January as the party's general secretary.

"I have held this position for 20 years and you know how old I am," said Mr Marchais, 73, who has a history of heart problems and is recovering from a hip operation.

Mr Marchais, whose bushy eyebrows and booming voice have made him a favourite target of France's satirists, has not only played a prominent part in domestic politics but was a key figure in western communism during the closing years of the cold war.

However, his reign over the French communists has been an era of dramatic decline. Mr Marchais, long a protégé of Soviet leader Leonid Brezhnev, took the helm in 1972 when the communists were the dominant force on the French left, with 25 per cent of the vote. But their share had slipped to just over 9 per cent in this spring's first round of voting for the legislative elections.

The first thorn in the communists' side was the rise of the Socialist party after its resurrection by Mr François Mitterrand in 1971.

The socialists swiftly ousted the communists as the main faction on the left.

When Mr Mitterrand won the presidential elections in 1981, Mr Marchais polled 15.3 per cent, the lowest score of any communist leader since 1935.

Many commentators blamed Mr Marchais' orthodox view of communism for the loss of appeal.

The decline of the Communist party accelerated during the 1980s.

Many of the party's traditional working class supporters defected to Mr Jean-Marie Le Pen's extreme-right wing National Front.

At the same time it lost prospective young recruits to Les Verts, the radical wing of the environmentalist movement.

The party's problems were aggravated by Mr Marchais' refusal to adapt to changing circumstances. Snubbing public opinion, he backed the 1979 Soviet invasion of Afghanistan as well as the crackdown on Poland's Solidarity movement in 1981.

Mr Marchais' hardline views came under regular attack from the reformists within his party, who lobbied for the French communists to modernise along the lines of their more dynamic Italian counterparts.

He always succeeded in staving off the attacks on his own position and in clinging on to his Val-de-Marne constituency in the Paris suburbs, despite the erosion in the party's support.

His position within the party was reinforced by his high public profile. Mr Marchais, a miner's son from the Calvados region, was a talented television performer who styled himself as a wise-cracking demagogue, in stark contrast to the bourgeois intellectuals who tend to dominate French politics.

However, the attacks on his leadership continued, not least from Mr Charles Fiterman, the outspoken reformist who is now the favourite to succeed him as general secretary. Mr Marchais was recently forced to agree to a package of internal reforms.

The most embarrassing aspect of his career was his second world war record, which dogged him through the years. While other communists played key roles in the wartime Resistance, he worked in an aircraft factory in Nazi Germany.

He always argued he was drafted as a forced labourer but never succeeded in dispelling doubts that he went voluntarily because it offered him a job.

Suffering from arthritis and a weak heart, Mr Marchais said he would retain his parliamentary seat for the Val-de-Marne.

Despite the rows, the communist leadership yesterday rallied behind their departing general secretary. Mr Pierre Blotin, a member of the central committee, described his resignation as "an important and moving moment".

Brussels to make summer longer

By David Gardner in Brussels

CONTINENTAL Europe will get an extra month of summertime under a plan agreed yesterday by the European Commission to ensure all 12 states adjust their clocks in unison.

The commission said a large majority of those consulted in government and business wanted the convenience of EC-wide harmonisation of summertime.

From 1997 clocks will be changed across the EC at the end of March, and at the end of October. At present continental Europe switches at the end of September, while the UK and Ireland change at the end of October. If the Twelve agree, the end of March start for summertime will come into effect from 1995, with a two-year transition then allowed for adjustments such as the updating of railway timetables.

The Commission had been unenthusiastic about the proposal originally, fearing it would invite charges of meddling in national affairs.

Brussels had considered ditching the idea as a sign it was bowing to "subsidiarity", the doctrine that the EC should only act where national measures would be insufficient. A clear majority of member states appear to want the change, however, and are more concerned to rein in the Commission in other areas.

Hungary devalues as policy shifts

By Nicholas Denton in Budapest

HUNGARY yesterday further relaxed its exchange rate policy by devaluing the forint by 4.5 per cent, leaving the national currency 15.1 per cent down on a year ago.

The government cited the "need to adjust the forint's exchange rate to its real rate on international money markets". Yesterday's was the fifth devaluation this year and the increasing frequency of currency changes indicates a shift from Hungary's earlier policy of real appreciation of the forint.

Behind the change lies a precipitous drop in exports, which in the first seven months of the year were 27-28 per cent down on a year earlier.

Independent analysts and the National Bank of Hungary's own forecasters now predict that the export collapse could leave the current account in deficit by $2bn (£1.2bn) for the year.

The Hungarian authorities aim to finance the current account with capital inflow but a shortfall of the order forecast would exceed expected foreign direct investment of $1.5bn for 1992.

The increasing pace of currency depreciation offers relief to exporters.

But the latest devaluation will increase import prices at a time when consumer inflation has in any case rebounded to stand at 22.3 per cent in the year to August.

To offset the inflationary impact of devaluation and allow financing of the 1993 public-sector deficit of 6.8 per cent of GDP, the National Bank of Hungary has increased interest rates.

Last week the central bank raised its base rate by three points to 22 per cent.

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Bosnia heads for another winter of civil war

Moslem conditions mean virtual rejection of Geneva peace plan

By Laura Silber in Belgrade and Gillian Tett in London

BOSNIA'S Moslem-dominated parliament yesterday defied Serbian threats and voted to reject peace plan maps put forward in Geneva, although it agreed in principle to the republic's partition into three ethnic mini-states.

After a closed session in the shell-scarred Holiday Inn in Sarajevo, 58 deputies voted to endorse the plan on condition that territories taken by force are returned to government control. Seven deputies voted for outright rejection, witb four in favour of unconditional acceptance.

Since Bosnian Serb leaders have repeatedly refused to hand over any more land to their out-gunned Moslem adversaries, the decision appears to have weakened hopes of an early peace settlement.

Mr Radovan Karadzic, Bosnian Serb leader, earlier warned that conditional acceptance was tantamount to rejection. "Enough is enough," he said, adding that Serbs have already made seven separate territorial concessions.

General Ratko Mladic, Bosnian Serb commander, said: "If they refuse to sign, the situation will be catastrophic."

After 18 months of war, Bosnian Serb forces hold about 70 per cent of Bosnia. Mr Karadzic has agreed to scale back his territory to 54 per cent but has stopped short of the additional 4 per cent of land, cited by Mr Alia Izethegovic, Bosnia's president, as necessary to have the minimum essentials for the functioning of his land-locked, disjointed state.

Despite pressure to endorse the accord, Mr Haris Silajdzic, Bosnia's foreign minister, yesterday said: "Territories taken by force, especially where genocide occurred. . . must be returned to their rightful owners. Otherwise, we are living in a jungle. It will be a new stone age."

The rejection left diplomats at a loss for the next step to take to broker a peace before the brutal Balkan winter, and threw plans for the deployment of peacekeeping forces into confusion again.

Lord Owen and Mr Thorvald Stoltenberg, the International mediators, will meet today in Geneva to discuss the next steps. However, the mood in Geneva yesterday was sombre.

Mr Les Aspin, US defence secretary, said the latest news on peace negotiations in the former Yugoslavia was "rather pessimistic" and the Pentagon feared that Bosnia may suffer another winter of civil war.

Meanwhile, in Brussels, Nato diplomats indicated that the conditional acceptance would probably not he sufficient to initiate the deployment of peacekeepers.

With the prospect of renewed war, fears are also growing about the further fragmentation of Bosnia, heightened after Mr Fikret Abdic, a member of Bosnia's collective leadership declared autonomy in the Bihac region, an isolated north-western pocket.

The Bosnian parliament yesterday ousted Mr Abdic from the collective leadership.

Mr Abdic appears to have timed his declaration of autonomy, with the tacit support of Zagreb, the Croatian capital, in a bid to weaken to Mr Izetbegovic while the parliament was in session in Sarajevo.

SHOOTING ALLEY: A Moslem boy braves sniper fire in the streets of Mostar Associated Press

EC seeks common rules on extradition

By David Gardner in Brussels

EC justice ministers are to try to thwart tax evaders and terrorists by agreeing common rules on extradition.

At a meeting near Brussels they launched a year-long review of national extradition procedures.

Officials at the meeting said the review would examine whether to abolish the category of a politically motivated offence inside the EC, and whether EC nationals can be extradited for tax evasion.

Mr Melchior Wathelet, justice minister of Belgium, the current EC presidency, pointed out that extradition procedures inside Europe have hardly changed for 50 years.

It was "time to take a big step forward," he said, to prevent criminals from taking advantage of the EC's border-free single market. He cited as examples that France and Belgium did not allow extradition of their own nationals.

Mr Wathelet added that "the notion of political offences needs to be reconsidered, and possibly abolished," inside a Community whose members were democracies governed by the rule of law.

Kohl stalls again on move to Berlin

By Judy Dempsey in Berlin

THE GERMAN government faces internal criticism after again postponing a decision on when the seat of government will move from Bonn to Berlin.

Mr Theo Waigel, the finance minister, has been accused of distorting the costs of the move, prompting fears that the longer Chancellor Helmut Kohl puts off the decision, the greater the scope for wider divisions in the government and the Bundestag.

The dithering over the move, which was agreed by the Bundestag on June 20 1991, is not only prompted by costs, which Mr Waigel claimed would be between DM20bn (£8bn) and DM30bn. Sections of the CDU fear a move in 1998 would alienate voters in the Rhineland, whose interests are tied to the government in Bonn.

Mr Dietmar Kansy, a CDU deputy and chairman of the Bundestag's construction commission, said Mr Waigel's estimates for the move to Berlin were "total nonsense" and he was using these figures simply to prevent it. In particular, Mr Kansy said the finance minister had included the cost of building 12,000 apartments, which he said were not supposed to be included in the costs, as well as transport, which in any case was going to he upgraded regardless of the move.

● Industrial orders in eastern Germany fell by 14 per cent in July compared with the previous month, with the manufacturing sector registering the sharpest fall, the federal Ministry of Economics said.

Ministry officials said the decline was partly caused by seasonal factors as well as an unexpected 21 per cent increase in orders in June.

Meanwhile the annual rate of inflation in western Germany dropped by 0.2 percentage points to 4 per cent last month, the federal statistics office reported yesterday.

New calling beckons for the mobile telephone

By Andrew Adonis

FT NINE out of 10 Swedes will have a mobile phone by the end of the decade, by when the portable phone will be a mass consumer product across Europe, the head of Sweden's state mobile communications operator said yesterday.

Mr Seth Myrby, chief executive of Telia Mobitel, an offshoot of Sweden's state telecommunications operator, said the next five years would see a "mobile revolution" as the portable phone was transformed from yuppy accessory to household essential.

Addressing the FT's world mobile communications conference in London, he said that almost nine in every 100 Swedes now had a mobile phone, one of the highest ratios in the world.

In a pointed reference to the implications of rapid growth for the industry's high prices and margins, Mr Myrby noted that department stores and consumer electronics retailers would become the normal channel for selling mobile phones, "and they are used to handling consumer goods with much lower margins than is the case with mobile phones today".

Mr John Defeo, chief executive of US West NewVector Group, the US operator, reinforced the message by pointing to the ready availability of high-frequency radio spectrum for operators to offer new mobile services.

"We are in a very different world [from the 1980s]", he said. "There will be plenty of spectrum to go round. Value will be created through the development of new products and services."

He predicted that the emphasis for the consumer market would be on simple tariff packages.

Business sets up Thai Aids bureau

By Victor Mallet in Bangkok

BUSINESSES in Thailand yesterday established a new organisation to deal with the problems posed to employers and workers by the spread of the HIV virus which causes Acquired Immune Deficiency Syndrome (Aids).

Mr James Reinnoldt, regional managing director of Northwest Airlines of the US, and Mr Bill Black, general manager of Bangkok's Regent Hotel, founded the Thailand Business Coalition on Aids with the help of the Thai government and the World Health Organisation.

It is said to be the first such business group on Aids to be established outside the US, although similar groups are being set up in Japan and the UK.

According to the Thai government, more than one in three deaths in the labour force will be caused by Aids by the year 2000.

The direct and indirect costs of the Aids pandemic by that time are expected to reach $9bn in Thailand alone.

Companies are becoming increasingly concerned about the possibility of lost productivity, increased healthcare costs, a decline in tourism, and even the death of their employees and consumers.

"HIV/Aids is at the very centre of our concern," Dr Jumroon Mikhanorn of the Thai Ministry of Public Health said at the launch of the coalition. "In Thailand as many as 500,000 people may already be infected and the death toll from Aids doubles each year."

The idea behind the new group is to educate workers to curb the spread of Aids, to explain to them that Aids cannot be spread by infected individuals in normal factory or office working conditions, and to end discrimination against HIV-positive employees by their employers.

At present it is common for Thai companies to screen workers for HIV and fire those who are found to have the virus.

The coalition of foreign and Thai businesses, which has produced a manual outlining policies for dealing with Aids in the workplace, hopes to recruit 250 companies within a year.

Japanese steelmen to be asked to stay away

Short time for steel

By Robert Thomson in Tokyo

JAPAN'S leading steelmakers are expected to ask workers to stay at home for two to three extra days per month to cut costs, in a move likely to set a standard for other troubled industries.

Nippon Steel, Kawasaki Steel and NKK, three of the largest makers, confirmed yesterday they were considering the reduction in work hours, which would be subsidised to a maximum of Y9,410 ($89.60) per day by the Japanese government.

Manufacturers are looking for new ways to reduce labour costs, which rose last year for all industries by an average of 5.8 per cent, even though sales for most products fell as the economic downturn worsened.

The tradition of lifetime employment in Japan means companies have tried to find ways to reduce costs other than laying off workers. Most have already cut their graduate intake and plan to trim workforces through natural wastage. But Japan's economy is continuing to weaken and manufacturers are likely to follow the steel industry's lead. The Labour Ministry has approved steel industry subsidies for "employment adjustment", meaning retraining or just keeping workers at home.

The steelmakers will need approval from company unions, which may also be asked to accept pay cuts in the longer term. A senior official said manufacturers and unions would come under government pressure to accept a pay cut.

Six years ago Japanese steelmakers cut working hours, as the industry was hit by yen appreciation and declining domestic sales, but the rapid growth of the late 1980s encouraged companies to hire workers to meet demand.

The companies have just announced profit revisions, with Nippon Steel, the world's largest maker, expecting a Y15bn pre-tax loss in the year ending in March.

Japanese Companies: Financial Review, Pages 29-33

Wooing foreign investors: Nelson Mandela, the African National Congress leader, meets diamond trader Maurice Templesman (right) and John F. Kennedy Jr in New York yesterday Associated Press

Israeli peace fatigue blocks Rabin's road to Damascus

David Horovitz on obstacles to a deal on the Golan

THE GIANT banners are everywhere. One hangs from a window-sill next door to Israeli prime minister Yitzhak Rabin's Jerusalem residence. Another is festooned across the top floor of a towering luxury apartment complex overlooking parliament. A third has been planted into a small hillock alongside the main Jerusalem-Tel Aviv highway. The message, loosely translated: "The Golan Heights are an integral part of Israel."

The banner campaign, backed up with the distribution of car stickers bearing the same message, was dreamed up by a group of Israeli right-wing activists several months ago, before the news broke that Israel had secretly reached an agreement with the Palestine Liberation Organisation to grant limited self-rule to the Palestinians of the occupied territories.

The activists were mainly Jewish settlers, residents of the occupied West Bank. But since the mainstream Israeli population had little sympathy for the settlers, having watched successive hard-line Likud governments pump money into settlements instead of towns and poor neighbourhoods inside Israel, they focused their efforts on resisting territorial compromise on the Golan – an issue for which there is a far wider national consensus.

Their hope was that the Israeli electorate would first join them in demanding that Mr Rabin reject Syrian demands for an Israeli withdrawal from the strategic Golan Heights ridge, captured from Syria in 1967, and then back them in their demand for the maintenance of Israeli rule over the entire West Bank and Gaza Strip as well.

Syria said yesterday it was not in a hurry to make peace with Israel if peace did not mean Israel returning all occupied Arab territory, Reuter reports from Damascus.

"Syria believes time is on the Arabs' side so we need not hurry for a settlement which will not restore the Arabs' usurped rights," the ruling party newspaper al-Baath said.

"Here we should cite a quotation from the Arab leader (Syrian President) Hafez al-Assad in which he said future generations would be able to restore the Arabs' rights if our generation could not," added the newspaper.

But al-Baath said this did not mean Syria would abandon the Middle East peace process.

Syria and Israel have held direct peace talks for almost two years without achieving tangible progress. Syria wants Israel to give back the Golan Heights. Israel says it is willing to withdraw from at least a part of the Golan but first it wants to know what kind of peace Syria envisages.

The settlers, like other Israelis and, for that matter, the rest of the world, were caught off guard by the accord with the PLO. They barely had time to organise a couple of protest demonstrations before Messrs Rabin, Peres, Arafat and company were gathering on the White House lawn.

Within days, Israeli opinion surveys were showing that about 60 per cent of the public were behind the autonomy deal. The banner campaign had apparently failed.

But most days, as he leaves his home, or glances at the back windscreen of the car in front, Mr Rabin must still see the message. And the interviews he has given in the past few days suggest that he has absorbed it.

The US is pressing Mr Rabin to follow up the deal with the PLO and the agreement with Jordan on a joint "peace agenda" by working for a similar breakthrough with Syria. Mr Warren Christopher, US secretary of state, is heading for the region next month bent on mediating an accord between Mr Rabin and Syria's President Hafez Assad.

President Hosni Mubarak of Egypt is urging Mr Rabin to cut a deal with Damascus. And Israeli and Syrian negotiators in Washington have done most of the work on a joint declaration of principles for peace.

Yet Mr Rabin is holding back. He knows that the road to a truly comprehensive Middle East peace leads only through Damascus – that once an accommodation is reached with Syria, Lebanon would follow immediately, the Arab boycott of Israel would be lifted and the new era of regional harmony he speaks of might at last be at hand.

But Mr Rabin also knows that the Israeli public is still grappling with the concept of "Yassir Arafat, the peace partner". After all, as he confessed at the White House two weeks ago, it was not easy for him to make the leap.

He knows that a second peace punch might just knock the Israelis out. If, only weeks after rehabilitating Mr Arafat, he were to announce a deal with President Assad – one that would necessarily involve withdrawal from most, if not all, of the Golan – he might lose his mainstream support.

In the short term Mr Rabin has no urgent need for an agreement with the Syrians. The Israeli-Syrian border has been quiet for almost 20 years. And in southern Lebanon, American-mediated understandings have ensured that Syria limits the activities of the radical Hizbollah and Palestinian gunmen to attacks on the Israeli "security zone" rather than sovereign Israeli territory.

It may well be that, behind the scenes, Mr Rabin is signalling a certain readiness for compromise with Damascus. That would seem to be a prerequisite for preventing President Assad from working actively to torpedo the accord with the PLO.

But publicly, Mr Rabin continues to accuse the Syrians of "preventing progress", of inflexibly demanding a full Israeli withdrawal from the Golan, of talking peace while quietly encouraging war.

For all the American presure and all the tantalising possibilities of wider Arab reconciliation, Mr Rabin appears to have decided that a deal with Syria can wait a while. He has been reading the banners.

Commission outlines policy for South Africa

By Lionel Barber in Brussels

THE European Commission yesterday outlined a "rolling programme" for full normalisation of relations with South Africa, but warned that a new trade accord should not be signed until after democratic elections set for April 1994.

The new policy is a response to this month's agreement between the Pretoria government and the African National Congress on establishing a transitional executive council which would pave the way to an end of white minority rule in South Africa.

The announcement in Brussels yesterday comes nine days before President F W de Klerk and Mr Nelson Mandela, president of the ANC, are due to come to Brussels to address the EC/African, Caribbean and Pacific Joint Assembly.

Mr de Klerk and Mr Mandela are expected to outline their thoughts on how to develop a new trade relationship between the EC and South Africa. This is likely to take place outside the Lomé Convention, the trade agreement linking the Community with the 69 ACP countries.

The Commission wants EC ministers to introduce changes linked to the "effective establishment" of a democratic government after April 1994.

EC plans pact with Israel

By Lionel Barber in Brussels

THE European Commission yesterday unveiled proposals for a new free trade pact with Israel covering services and a stake in the EC's multi-billion dollar research and development programme.

The proposal would extend the 1975 free trade agreement with Israel, and forms part of an unfolding EC policy aimed at capitalising on the breakthrough between Israel and the Palestinians on self-rule in the occupied territories.

Mr Manuel Marin, EC Commissioner for development policy, said the new agreement would be an important step in supporting Middle East development. He said other trade arrangements in the region also needed to be updated, and called for round-table talks with Arab states, including Egypt, Lebanon and Jordan.

The draft for the new bilateral trade agreement must be approved by EC ministers. It avoids serious concessions on agriculture, but offers other attractions for Israel:

- A broader political dialogue at ministerial level, enabling Israel to continue its escape from diplomatic isolation;
- Liberalisation of public procurement, so that public sector contracts are accessible on a reciprocal basis;
- A separate agreement whereby Israel could take part in the EC's R&D framework programme which accounted for Ecu2.6bn (£2bn) in 1993;
- Co-operation on energy, the environment and drugs.

Palestinian companies in the occupied territories will not be eligible for funding or special treatment under the EC-Israel pact, said Mr Marin. But this could change, once the nature and extent of self-rule in the territories became clear.

NEWS: INTERNATIONAL

India to end telephone monopoly

By Stefan Wagstyl in New Delhi

INDIA has approved a US company's $100m (£65m) plan to build a telephone network in a south Indian town, in a move which would end the state's monopoly of telephone services.

The decision to allow US West, the telecommunications group, to install a network in the industrial town of Tirupur will set a precedent for opening up India's cash-starved telecommunications network to private investment, including foreign capital. The government hopes to achieve a dramatic improvement in India's telephone services which are among the world's worst, with only five telephone lines for every 1,000 people, compared with a global average of 100.

"In telecommunications we are on the verge of a revolution," said Mr N Vittal, chairman-designate of the government's Telecommunications Commission, which supervises the industry. Mr Vittal, a market-oriented reformer who has been dubbed "the telecommunications tsar", was speaking at a busioess conference in Delhi yesterday. He said private companies, including multinationals, were welcome in the telecommunications sector.

The challenge is enormous; the Telecommunications Ministry estimates that India must expand its network from 7m lines to 40m lines by the year 2000. But the ministry can afford to install only a maximum of 2m lines in the current year to March 1994.

The ministry is creating openings for private capital despite opposition from public sector trade unions, fearing job losses, and the deep-seated reluctance of many MPs who stand to lose patronage as the public sector shrinks to counteoance the privatisation of an essential public service.

Both privatisation and foreign investment are sensitive subjects in India, as demonstrated by the decision this week by Cargill, the US trading company, to abandon a proposed salt manufacturing scheme following bitter opposition from salt farmers, MPs and unions.

The Telecommunications Ministry first invited proposals from private companies a year ago, when it announced its intention to allow private investment in new industrial townships and in rural districts, which are particularly poorly served by public utilities. US West bid for two networks - Tirupur and the fast-growing industrial estate of Noida, on the outskirts of Delhi.

The government's Foreign Investment Promotion Board this week cleared only the Tirupur project. The board will take longer to decide on Noida because 44 companies have submitted applications.

Mr Vittal said the technology existed to make rapid improvements in telecommunications without relying on the slow work of expanding land-based lines.

US West's scheme involves establishing a wireless system for business users and for public call offices within the first year of operation in a core area of Tirupur. The company would also start laying fibre-optic lines in the same area. Once the fibre-optic network was ready, the wireless equipment would be moved further out, linking new areas to the core. The system would operate in parallel with the existing public network and the call charges would be the same.

US West would take a 50 per cent stake in a joint venture with Indian partners, which, over 10 years, could install up to 1m lines at a total cost of over $350m, including an initial $100m investment.

Earlier article, India Survey, Section III

Cambodian King Norodom Sihanouk speaking to villagers yesterday during a visit to countryside in the south-west of the country. He attacked the Khmer Rouge and demanded that the rebels give up their territory or face military action *Associated Press*

UK sceptical about Libyan offer

By Mark Nicholson in Cairo

BRITISH officials greeted with scepticism yesterday a statement from Libya suggesting it would "urge" two suspects in the 1988 Lockerbie bombing to stand trial in Scotland.

The Foreign Office and UN diplomats said the statement fell short of demands to hand over the men and that Britain, the US and France would proceed tomorrow with the tabling of a proposed UN resolution to stiffen sanctions against Tripoli.

The Libyan statement said that Libya was not against the two men standing trial in a Scottish court and added: "We urge them to accept that".

Mr Douglas Hurd, UK foreign secretary, said: "If they come forward and are handed over, then that will change the situation and sanctions can be suspended. If not, after the expiry of the deadline on October 1 we will ask the Security Council to impose new sanctions."

Australian $ under pressure

By Nikki Tait in Sydney

THE Australian dollar came under renewed pressure yesterday, after news that a deteriorating trade balance caused the country's seasonally adjusted current account deficit to widen to A$1.39bn (£590m) last month. The August figure compared with a A$1.08bn deficit in July. On a non-adjusted basis, the August result showed a deficit of A$1.69bn, up from A$1.53bn in the previous month.

Much of the damage resulted from a turnaround on the balance of trade, with exports falling by 4 per cent, while imports increased by 2 per cent. As a result, the trade balance (seasonally adjusted) swung from a surplus of A$128m to a deficit of A$153m. There were marked declines on the export side in transport equipment and coal, as well as gold, machinery, meat and wool; on the import side, fuel showed the sharpest rise.

Although analysts had predicted that the trade position would deteriorate after July's surprisingly good results, the August balance of payments data were at the gloomier end of expectations. Bankers Trust had forecast a current account deficit of A$1.15bn, and the market had expected the unadjusted figure to stand in the A$1bn-A$1.3bn range.

However, in Canberra, Mr John Dawkins, the Australian treasurer, and Mr Paul Keating, the prime minister, both insisted that the figures reflected signs of increased economic growth. "Today's figures are within market expectations and consistent with ongoing recovery in the Australian economy," Mr Dawkins said.

On the foreign exchanges, the dollar fell immediately after the figures were released and, by early afternoon, was flirting with a six-and-a-half-year low. By the close the currency had regained a little ground, trading at US$0.646 - down from an opening level of US$0.647.

The dollar has been under pressure for over a month because of the Keating government's failure to push its budget legislation through the Australian Senate, where two minority parties - the Green party and the Democrats - hold the balance of power. The budget legislation, passed in the House of Representatives on Tuesday, was introduced into the Senate yesterday.

Sharif associate killed in Punjab

By Farhan Bokhari in Islamabad

MR Ghulam Hyder Wyne, a former chief minister of the province of Punjab and a close associate of Mr Nawaz Sharif, the former prime minister, was assassinated yesterday by gunmen near the city of Mian Chunun in central Punjab. The killing raised concern over security in the run-up to elections next Wednesday.

Ms Benazir Bhutto and Mr Sharif are both campaigning to make a political comeback.

Mr Wyne was dragged from his car and shot after the vehicle was fired on and stopped. His driver and two other passengers sustained serious injuries, police said last night.

Mr Wyne: dragged from car

The killing was condemned by politicians loyal to both Mr Sharif and Ms Bhutto. Investigators said they had found no evidence it was a political killing, indicating it might have been a personal attack. One of the injured passengers has apparently identified a gunman, which led the police to discount political motives.

Meanwhile, Mr Moeen Qureshi, the prime minister, last night postponed a visit to Saudi Arabia and will stay in Pakistan until after the elections.

Devaluation call hits peso value

By Jose Galang in Manila

THE PHILIPPINE peso has dropped sharply on foreign exchange markets this week as government officials debate a devaluation of the currency.

The peso rate against the US dollar has fallen by up to 9.2 per cent since the start of this week, or 21 per cent since January. Towards the close of banking hours yesterday, traders were quoting the Philippine currency at around 30.50 pesos to the US dollar.

Bankers say that although economic fundamentals favour the peso, the drop has been induced by official debate on a call to allow the currency to fall to 35 pesos to the dollar. The proposal further calls for a second rate of 28 pesos per dollar to support imports of essential items such as crude oil.

The call was submitted by Mr Edgardo Angara, the Senate president, at a recent economic summit of Philippine officials. He says a sharp depreciation in the peso rate would boost exports and "restore the nation's international competitiveness".

The Senate head also proposed imposition of a 5 per cent surcharge on three sectors likely to benefit from such a devaluation: exporters, depositors in dollars, and Filipinos employed abroad.

The levy, he said, would be used to fund power generation and reforestation projects, along with schemes (such as food subsidies and emergency loans) to cushion ths inflationary effect of a devaluation among low-income groups.

Even as officials of the Central Bank and of the House of Representatives, the other chamber in the bicameral legislature, dismissed the proposal, support for it came from leading economists.

Mr Benjamin Diokno, former budget undersecretary and currently a professor at the University of the Philippines School of Economics, urged in a paper that a devaluation now could become an "offensive tool" that could be used to restructure the economy. But he said a devaluation could only be effective if accompanied by improved tax collection, speedier privatisation of state assets, and a streamlining of the bureaucracy.

NEWS: WORLD TRADE

Gatt 'to boost world income by $213bn'

By David Dodwell, World Trade Editor

SUCCESSFUL completion of the Uruguay Round of talks on world trade liberalisation would add $213bn (£138.3bn) a year to world income by the year 2002, according to a four-year joint study by the World Bank and the Organisation for Economic Co-operation and Development, released this week at the World Bank/IMF annual meeting in Washington.

The lion's share of these gains – about $190bn – would come from the Uruguay Round's proposed 30 per cent cut in tariffs and subsidies for agriculture.

The remaining $23bn would come from average 30 per cent cuts in tariffs on industrial products.

By highlighting the gains that would come from reform of farm trade, the report throws the gauntlet down in front of France in particular, whose government has threatened to block agreement on the Uruguay Round unless its interests as a leading exporter of subsidised farm goods are better protected.

The report's authors insist the findings present a conservative estimate of potential gains from trade reform. They take no account of gains from liberalisation of trade in services. Nor do they take account of the "downside risk" of trade conflict if the Uruguay Round talks fail.

The study also emphasises that the Uruguay Round amounts to no more than partial reform of the distortions linked with protectionism. "If all trade distortions stemming from subsidies and tariffs were completely removed in all regions, we estimate the total (annual) gains in the year 2002 would measure $477bn," said Mr Ian Goldin, senior economist at the World Bank, and co-author of the report.

Mr Goldin notes that the largest income gains would occur in regions with the largest distortions – notably the EC, the European Free Trade Association countries of Norway, Sweden, Austria, Finland, Iceland and Switzerland plus Japan, and the Asean grouping of Singapore, Malaysia, Thailand, Indonesia, Brunei and the Philippines.

Losers, in contrast, would mostly be poor net food importers, in particular those in sub-Saharan Africa.

The study praises the "remarkable courage" of developing countries, whose recent commitment to painful economic liberalisation "is now threatened by the failure of the industrialised countries to take reciprocal measures".

It highlights the contradiction that industrial countries are those blocking successful completion of the Uruguay Round, even though it is these same countries that stand to gain most from reform.

Of the $190bn that would be gained from reform of farm trade, the study finds that $120bn would be reaped by OECD countries. In addition, 64 per cent of the gains from tariff cuts in manufactures trade would go to OECD countries. Almost all gains from liberalisation of services would go to the OECD.

The report also attacks the alliance forged between environmental lobbies and protectionists, arguing that it is protection, not free trade, which endangers the environment – especially in agriculture.

* *Trade Liberalisation: What's at Stake, by Ian Goldin and Dominique von der Mensbrugghe, published jointly by the World Bank and the OECD Development Centre.*

Uruguay deadline seen as last chance

Frances Williams on a new, almost palpable sense of urgency over liberalisation talks

DEADLINES in the Uruguay Round of trade liberalisation talks have come and gone. But this time there is a new and almost palpable sense of urgency among negotiators in Geneva to wrap up the seven-year-old talks by December 15, when the US administration's negotiating authority runs out.

"December 15 is the agreed deadline for the deal to be done," Mr Peter Sutherland, director-general of the General Agreement on Tariffs and Trade, told finance ministers on the International Monetary Fund's policy-making interim committee at the weekend. "I can see no possibility whatsoever of another chance."

Mr Sutherland has set the 116 nations taking part in the Round a demanding timetable for each remaining stage of the negotiations. Today's meeting of the top-level trade negotiations committee is expected to confirm that so far the talks are broadly on track, but a huge amount of work is still needed.

The most pressing demand is to complete country-by-country talks on opening markets for foreign goods and services. For goods the negotiations must be largely completed by October 15, with a further month to finalise draft country tariff schedules. For services, the timetable envisages a final round of bilateral talks in the second half of October.

By common consent, these negotiations now represent the key to the success of the Round. Only if countries are happy with the results can other difficult issues related to the Uruguay Round framework of rules be resolved. For instance, Latin American nations need specific pledges of improved access for their highly competitive farm goods if they are to swallow what they regard as a sorely inadequate US-EC deal on farm subsidies, the so-called Blair House agreement.

Progress on lowering trade barriers for goods has been mixed. Negotiations on farm products, which were not covered by the four-way tariff deal between the biggest traders last July, are only just starting to move after the hiatus caused by French sniping at the Blair House agreement.

This is no longer seen as a blockage since the decision of EC foreign and farm ministers on September 20 not to seek to renegotiate the accord with Washington. The French, like everyone else, will now be faced with accepting or rejecting the entire Uruguay Round package when the talks are over.

Trade officials also point out that the process of "multilateralising" Blair House as part of negotiations to finalise tha rules on farm trade reform could provide some scope for the "additions and clarifications" Paris has demanded.

Refusal by Japan to accept the principle of "tariffication without exception" (conversion of all trade restrictions into tariffs), which would mean opening its closed rice market, has become the main obstacle to progress, trade officials say.

There has been more activity on industrial products, but developing countries have complained that the "Quad" deal between the US, EC, Japan and Canada contained little of interest to them. US agreemeot to reduce high tariffs on textiles is seen as essential to moving along the talks, paving the way for offers by developing countries to reduce their own tariffs on textiles and other goods and for the EC to do more in areas such as electronics, non-ferrous metals, wood, paper and pulp.

In services the picture is brighter. A revised draft General Agreement on Trade in Services, complete with annexes on air transport, financial services, telecommunications and labour mobility, will be presented to negotiators tomorrow.

The tricky issues here relate to maritime transport, audio-visual services and financial services. The US is refusing to open ocean-going shipping to all comers, to the dismay of many shipping nations, including the Nordic countries and EC members such as Greece.

The EC – with backing from others such as India, Australia and Canada – is resisting on "cultural" grounds US demands for unrestricted access to the European film, video and television markets. Elsewhere, the US and the EC are united in pressing mainly south-east Asian nations to open financial services to foreign competition.

In private, trade diplomats in Geneva expect a trade-off between US and EC interests in maritime and audio-visual services, with both keeping existing restrictions. However, a US threat to keep its own financial services off the table if others do not come through with adequate offers in this area could still wreck the talks.

Only once the market access package seems to be coming together will Mr Sutherland gingerly open up some of the contentious aspects of the Uruguay Rouod rules package drafted in December 1991.

Apart from the amendments to the farm trade rules resulting from the Blair House accord, the other predicted trouhle spots are US demands for changes to the anti-dumping text and its vacillation over proposals for a strong Multilateral Trade Organisation.

The end-game will not be easy, especially if, as many in Geneva fear, the garnering of congressional votes in Washington for the controversial North American Free Trade Agreement leaves US negotiators with little room for manoeuvre.

THE GAINS FROM URUGUAY ROUND SUCCESS - YEAR 2002

	$bn
Global price of distortions due to protectionism	477
Gains of partial liberalisation as result of Uruguay Round:	
* Remove 30 per cent of tariffs and subsidies for agriculture:	
gains for OECD countries	120
gains for LDCs and former planned economies	70
Total gains through farm trade reform	190
* Cut tariffs on manufactured goods by 30 per cent:	
gains for OECD countries	14.7
gains for LDCs and former planned economies	8.3
Total gains through industry trade reform	23
Total gains from Uruguay Round liberalisation	213
Cost of remaining distortions	264

Source: Trade Liberalisation: What's at stake?, published by World Bank and OECD Development Centre

EC starts talks with US over Gatt films row

By David Gardner in Brussels

THE EC and US this week began substantive negotiations on resolving their hitherto bitter differences on how to include audio-visual products, such as films, in the Uruguay Round world trade reform negotiations.

Sir Leon Brittan, EC chief trade negotiator, told the European Parliament yesterday that there were "glimmerings of a solution to that problem" following his meeting in Washington on Monday with Mr Mickey Kantor, US trade representative. "I found in the US for the first time, not a solution, but at least an understanding that culture is not the same as ordinary physical goods," Sir Leon said.

France is at the forefront of EC member states insisting that if they are unable to protect their cinema industry because the Uruguay Round subjects it to Gatt rules, it will be killed off by ths sheer volums of imports from Hollywood. The US film industry earned $3.7bn in Europe in 1991, in comparison to EC cinema exports to the US of a mere $250m.

Paris wants the audio-visual sector taken out of the trade negotiations altogether, while Sir Leon's strategy is to get the protection afforded by Gatt rules by including it, so long as its "cultural specificity" is recognised.

In a series of sharp encounters, US negotiators have accused the EC of cloaking naked protectionism under bogus claims of ths need to defend their cultures from US contamination.

An aide to Sir Leon said that after this week, "in terms of the tone, there is less shouting and more talking".

Sir Leon also said that he vigorously put to Mr Kantor "every single one" of the French-demanded "improvements" to the Blair House accord on farm trade reached last November in Washington. France's threat to veto Blair House unless it gets satisfaction remains the greatest impediment to concluding the Round by its deadline in 11 weeks.

Sir Leon said Mr Kantor was obviously oot in a position to respond to demands put to him for the first time, and that he said "he could give no reassurances whatsoever". One senior Commission official said Brussels did not expect Washington to show its hand on more farm trade coocessions until later, when it could see what was on the table in other sectors covsred by the Round. Sir Leoo meets Mr Kantor again on October 13.

Japan to import at least 1m tonnes of rice

By Robert Thomson in Tokyo

MR Morihiro Hosokawa, Japan's prims minister, said yesterday the country will be forced to import rice after typhoons and an unusually cold summer left production an estimated 20 per cent below the average annual harvest.

But the government insisted that the decision was a once-only response to a poor harvest, and other countries should not take the imports as a sign that the firmly closed Japanese rice market is now open.

Agriculture Ministry officials indicated that over 1m tonnes of rice would be imported, about two thirds of the amount for consumption at Japanese tables and the remaining third for use in processed foods.

It is expected that the US and Australia will be the leading contenders to supply the table rice, while Thailand and Vietnam were suggested as the most likely suppliers of rice for crackers and other processed foods.

Japan has resisted attempts to open the rice market as part of a settlement in the Uruguay Round of multilateral trade negotiations, though the country is expected to open the market if the US and EC reach agreement on farm trade.

Mr Hosokawa has indicated that he would be willing to allow imports, but has also insisted that rice is uot the issue holding back the Uruguay Round.

If he does push for an opening, the prime minister will have to overcome the opposition of rice farmers and the Social Democratic party, one of the seven members of his coalition government.

At 1m tonnes, the imports would be equal to about 10 per cent of average annual Japanese output, though government officials have privately suggested that, if the market is opened in the future, the initial ceiling on imports would be between 3 and 5 per cent.

The government is due to announce the rice harvest index today, but officials have suggested it will be about 80, compared with the 100 of an average year, while the index in Aomori prefecture, in the north, is said to have slipped to 32.

US carmakers aim for 80 miles a gallon

By George Graham in Washington

US CAR manufacturers yesterday joined the federal government in a research programme aimed at developing cleaner cars with three times the fuel economy of today's models.

The programme will pool resources from General Motors, Ford and Chrysler with those of the government's space, defence and nuclear weapons laboratories, and will redirect government research spending.

"Our long-term goal is to develop affordable, attractive cars that are up to three times more fuel-efficient than today's cars – three times – and meet strict standards for urban air pollution, safety, performance and comfort," President Bill Clinton said at a White House ceremony yesterday to launch the initiative.

Some critics complain the goal of around 80 miles per US gallon is technologically impossible. But Vice-president Al Gore said researchers needed to be imaginative. "After all, considering that this country spends tens of billions of dollars each year to upgrade and improve bombers and fighters, it is amazing we are content to use a technology on our highways that was developed in 1876," Mr Gore said.

US carmakers are currently required to produce a fleet whose fuel consumption averages 27.5 miles per gallon. The US Environmental Protection Agency, in statistics produced this week, showed the overall average of cars sold in the US is around 28.1 mpg, twice as efficient as the cars sold in the 1970s but with little change in the last seven years.

Only two car models studied by the EPA, the Geo Metro XFI and the Honda Civic HB, exceeded 50 mpg.

Others worry that the programme lacks any commitment for transferring greater fuel efficiency from the laboratory to the production line.

Some environmentalist groups fear that the research project might, in fact, be used by Mr Clinton to cover his retreat from a campaign pledge to increase the average fuel efficiency required by law to 40 mpg by the year 2000 and 45 mpg by 2015 – a move fiercely opposed by the car companies.

An increase in fuel efficiency requirements is also opposed by many environmental economists, who argue that the problem is not the availability of fuel-efficient cars but the lack of incentive for anyone to buy them while US petrol prices remain so low.

Petrol taxes are due to rise by 4.3 per cents a gallon on Friday following this year's budget, but Mr Clinton's efforts to impose a stiffer tax on all forms of energy were shot down in Congress.

US sees annual second quarter growth of 1.9%

By Michael Prowse in Washington

THE US economy grew at an annual rate of 1.9 per cent in the second quarter, slightly faster than the 1.8 per cent previously reported, the Commerce Department said yesterday.

This was an improvement on growth at an annual rate of only 0.8 per cent at an annual rate in the first quarter, but disappointing compared with the second half of last year when the economy grew at a 4 per cent annual rate.

Most forecasters expect economic growth to pick up in the third and fourth quarters to an annual rate of 2-3 per cent, reflecting the positive impact of sharp fall in long-term interest rates.

Several recent statistics, including a modest increase in consumer confidence in September and sharp gains in housing starts and durable goods orders in August, suggest the pace of economic growth is picking up again.

However, some analysts are concerned by a lack of optimism in corporate boardrooms. The Conference Board, a New York business analysis group, recently reported a 7 point fall in its index of business confidence in the third quarter to the lowest level in well over two years.

> The pace of economic growth is picking up

Growth in the second quarter was driven mainly by consumer spending and non-residential fixed investment which grew at revised annual rates of 3.4 per cent and 16.6 per cent respectively. The main drag on growth was an expanding trade deficit, reflecting much faster growth of US exports than imports.

An excavation machine lies on its side amid wreckage yesterday after a gas explosion near a busy Venezuelan highway. At least 52 people were killed in the blast, thought to have been caused by the excavator puncturing a natural gas pipeline Reuter

Canada's poll focuses on social security

By Bernard Simon in Vancouver

CANADA'S two main political parties are struggling to reassure an increasingly confused electorate that they can maintain one of the world's most generous social security systems while making a significant dent in the budget deficit.

Fiscal restraint and social security reform have emerged as the two key issues in the campaign for the October 25 general election. Both the ruling Progressive Conservative and the opposition Liberals have promised sizeable cuts in the deficit over the next four to five years.

But they also acknowledge the need for sweeping reforms of the social security system, which makes up about two thirds of government spending.

Both parties face the dilemma that any admission that spending cuts might include social security entitlements would amount to political suicide in the election campaign.

The Conservatives hava pledged to eliminate the deficit, which totalled C$35.5bn (£17.7bn) last year, within five years. The Liberals say they will cut the shortfall from 5.2 per cent to 3 per cent of gross domestic product.

Mrs Kim Campbell, the prime minister, has been trying to repair the damage in recent days caused by her earlier remarks which raised questions about the Conservatives' commitment to the social security net. She said in a speech in Toronto that "my approach does not cut social programmes. It fixes them."

Economists have dismissed the barrage of budget deficit targets as meaningless without significant cuts in spending on programmes such as unemployment insurance, social welfare and healthcare. Both parties' scenarios also assume what economists consider as unrealistically strong economic growth to bolster tax revenues.

The Globe and Mail newspaper said in an editorial yesterday that since both the Conservatives and the Liberals "still deny any intent to cut spending, the choice before the voter is this: which party is it safe to hope is lying?"

With less than a month to go in the campaign, the Tories have recently lost ground in public opinion polls to the Liberals as well as to the regional parties, the separatist Bloc Quebecois in Quebec and the right-wing Reform Party in western Canada.

Haiti awaits Aristide's resurrection

William Spindler on why the former president may be back

Aristide: plans to return by next month Reuter

THE likelihood of the safe return of President Jean-Bertrand Aristide to lead Haiti appears to have increased over the last week.

Violence and intimidation by supporters of the military leadership which ousted the president two years ago last week looked likely to jeopardise the implementation of an accord aimed at his safe return.

But the violence – at least in the capital, Port-au-Prince – appears to have subsided and a weekend decision to boost the UN presence in the country has raised hopes that Mr Aristide can return safely.

Around 600 US troops begin to arrive in Haiti next week in a "non-confrontational" role as part of a 1,650-member UN mission in Haiti to help in the restoration of democracy. The contingent is expected to contain more than 500 police.

The agreement between military leaders and Mr Aristide envisaging the latter's return, was sponsored by the UN and the governments of the US, France, Canada and Venezuela and signed on July 3. The accord contemplated the appointment of a new Prime Minister by Mr Aristide and his return on October 30.

But since Mr Robert Malval took office as Prime Minister on September 2, he and his cabinet have been obstructed and intimidated by government employees appointed after the coup, who do not want to give up their posts. The employees have been helped by bands of civilian police auxiliaries known as "attachés" who have attacked government ministers and the mayor of Port-au-Prince, Mr Evans Paul.

According to human rights groups, the "attachés" are also responsible for this month's violence against Aristide supporters, in which dozens of people have been killed or have disappeared, including an important backer of the President, Mr Antoine Izmery, who was pulled out of a church service and shot dead.

The prosecutor in charge of investigating some of these killings, Mr Wilson Ciceron, has resigned after receiving death threats. Ministers have been subjected to intimidation which, in some cases, has prevented them going to work. Mr Malval and his government cannot go anywhere without heavy police protection.

The man whose job it is to provide it, the police chief, Lt Col Michel François, has been accused by Mr Dante Caputo, special envoy of the Organisation of American States and the United Nations, of being responsible for Mr Izmery's murder.

Mr Malval's government has invited exiled Haitians to return to the country, but there is no evidence that any of those returning are Aristide supporters. Most appear to be supporters of the former Duvalier dictatorship, which ruled the country for three decades.

In an apparent attempt to keep the activities of the Duvalier supporters above board, Mr Malval has legalised a Duvalierist party.

In spite of the violence, Mr Aristide is adamant that he will return to Port-au-Prince next month. He is planning to arrive with a number of prominent international personalities, including the Nobel Peace Prize winner Ms Rigoberta Menchu and possibly former US president Mr Jimmy Carter.

If he does, he will find mountains of refuse blocking the streets of the capital, hunger and disease throughout the country, and an economy almost in ruins. His first priority, nevertheless, will be to stay alive and to try to stem the violence.

His task will not be helped by a new organisation calling itself the "September 30 Group" after the date of the 1991 coup. It has been distributing leaflets in the streets of Port-au-Prince threatening to "eradicate" Aristide's activists before his return.

"The days to come must be red with blood" they warn. They also pledge to intervene immediately whenever an employee appointed since the coup is fired. "Our democracy", the leaflet states, "consists of the law and the machine gun".

UK pushes for debt forgiveness

By Peter Norman, Economics Editor, in Washington

IF THERE is one message that Britain has hammered home during this week's monetary meetings in Washington it is that western creditor countries should move swiftly to grant the Trinidad terms for debt relief to those poorest developing nations which are reforming their economies.

Mr Kenneth Clarke, the UK chancellor of the exchequer, has urged governments to forgive two thirds, and in some cases 80 per cent, of the official debts owed to them, against 50 per cent at present.

He has also called for the terms to be applied to the whole stock of debt rather than selected maturities under the present workings of the Paris Club of industrialised creditor countries.

The UK aim is to get these countries off the Paris Club's books and in a position where they can rebuild their financial credibility with a view to one day borrowing on the world capital markets.

The proposed two thirds to 80 per cent rates of debt reduction have been chosen in the belief that they would permit "exit rescheduling" after which countries need never return to the Paris Club.

The call to apply the reduction to the whole stock of debt is to deal with problems caused by a Paris Club convention that restricts reschedulings and debt reductions to debts incurred before a specific cut-off date.

The cut-off date is usually around the time a country first applied to reschedule its official debt.

In the case of some African countries it can be as far back as the early 1980s. In these cases present rescheduling and relief agreements have not taken account of subsequent defaults and arrears that make up the lion's share of their present debt burdens.

So far 17 countries, mainly in sub-Saharan Africa, have benefited from the Trinidad terms, and had $1.75bn (£1.13bn) of debt and debt service obligations written off. Tentative UK estimates suggest if Britain's call to relieve the stock of debt were to be accepted, a further $8bn would be eligible for forgiveness.

Britain claims that it is close to achieving a consensus among creditor countries on applying debt relief to the stock of debt. There is less agreement on having a rate of debt reduction higher than 50 per cent.

However, the UK plan has still to win the support of Japan, which argues that debt relief leads to "moral hazard" that will encourage other borrowers to renege on their obligations.

One attraction of the Trinidad terms for the UK is that they have no adverse budgetary implications. The debt has largely arisen through defaults on export credit guarantees that have already been paid by the government.

Other countries, notably the US, are less well placed. The US has to make a provision in its budget for official debt relief. Britain has therefore achieved something of a breakthrough in winning the support of the Clinton administration for 50 per cent debt reduction, which the Bush administration had refused to back.

Manila to resume IMF talks

By Jose'Galang in Manila

THE PHILIPPINES has agreed with the International Monetary Fund to resume negotiations on a medium-term financing programme to support economic recovery, the government announced yesterday.

The last of the decade-long series of shnrt-term prngrammes for Manila ended in March and snbseqnent disagreements over revenne-enhancement measnres brought discussions on a successor programme to a stalemate.

The Philippines is looking to a three-year financing worth about $800m (£528m) that will help propel its economy towards donble-digit growth towards the end of this decade.

Bentsen urges boost for jobs

By Peter Norman in Washington

MR Lloyd Bentsen, the US treasury secretary, yesterday called on the world's industrial nations to remove barriers to employment.

Addressing the annual meetings of the International Monetary Fund and World Bank, he said tha fight to reduce unemployment in the industrial world from its current level of 35m required more than action to stimnlate demand.

"Policies that spur demand will urge companies to take on workers and increase production," Mr Bentsen said. "At the same time, we must eliminate the structural barriers employers face – the ones that convince them in a thousand little ways that hiring the extra employee is just not worth the tronble."

Mr Bentsen said that the Gronp of Seven industrial nations' jobs conference, which the Clinton administration plans to host in Washington this antumn, would consider both demand-boosting policies and action to cut structural unemployment. "We must learn from each other's experience and find ways to restore our ability to produce jobs," he said.

There was a "very real risk" of arriving at next year's IMF and World Bank annual meetings "with nothing more to say than recovery is still right around the corner," Mr Bentsen said. "After three years, this line is beginning to wear a little thin."

He said he believed the big industrial countries were finding the political will to implement growth policies. The past week's discussions in the G7 and IMF's policy-making Interim Committee had been encouraging. "I believe we are all moving together."

Mr Bentsen made yet another plea for a conclusion of the Uruguay Round of trade liberalisation talks this year. "Time is running out," he said. The December 15 deadline for completing the round with the benefit of fast track procedures in the US Congress was "close at hand".

Mr Bentsen warned against hopes the deadline might be flexible. "I would not expect the US Congress to approve an extension of it."

Some good news and a call to arms

This year's meeting may one day be viewed as a turning point, writes **Peter Norman**

IT IS easy to be cynical about events such as this week's annual meetings of the International Monetary Fund and World Bank.

The descent on Washington of legions of pin-striped officials and assorted bangers-on does wonders for the local hotel and stretch-limo trade. But the jamboree often seems worlds away from the realities of widespread poverty in many developing nations and near-zero growth and rising unemployment in the industrialised world.

Take last Saturday's gathering of ministers from the Group of Seven leading industrial nations.

The talks among the finance ministers and central bank governors of the US, Japan, Germany, France, Britain, Italy and Canada were never likely to be more than a stock-taking exercise. The muted outcome, with no official communique on economic policy but all participants claiming, with hindsight, that decisions over the previous five months reflected Group of Seven co-ordination, was bound to dissatisfy observers brought up on a heady diet of G7 exchange rate activism in the 1980s.

And yet, the 1993 IMF-World Bank meeting, which ends today, may be viewed one day as a turning point: when suddenly the glass that is the world economy moved from being half empty to half full.

The meetings opened under the cloud of the latest IMF forecasts for the world economy. The Fund's twice-yearly World Economic Outlook scaled back already weak growth expectations for the industrialised nations in 1993 and 1994.

> A more optimistic tone has been seeping into private conversations

The talks in Washington have also produced no noticeable improvement in the prospects for trade liberalisation through conclusion of the Uruguay Round of trade talks under the auspices of the General Agreement on Tariffs and Trade. This was to be expected because finance ministers are not trade negotiators.

But a more optimistic tone has been seeping into private conversations and the statements of ministers and officials. Bankers on the cocktail party circuit have been talking about better business than a year ago. The IMF forecast downgradings, on closer inspection, did little more than reflect the consensus of financial markets.

Seven days ago, there was widespread concern that Japan might be heading for further economic contraction and that Russia would fall into chaos.

These worries have not gone away. But Japan is contemplating n tax reform that may eventually boost the economy. There is greater hope that continental Europe might have seen the worst of its recession and that short-term interest rates will fall in Germany, allowing its neighbours to benefit from easier monetary conditions.

In between valedictory parties for Mr Helmut Schlesinger, who hands over tha presidency of the Bundesbank to Mr Hans Tietmeyer tomorrow, German officials have stressed their belief that Germany's recession is past its worst. As inflationary pressures might also be easing, the Bundesbank, with its customary caution, may be more inclined to use what scope it has to lower interest rates.

The other good news has been the rapid growth of some developing countries in east Asia and Latin America.

A visitor to Washington is quickly aware of the advertisements on US television criticising imported cars and castigating the proposed North American Free Trade Agreement, which will turn the US, Canada and Mexico into a trading block.

But the IMF has underlined just how far the industrialised world is benefiting from trade with fast-growing developing nations.

In his keynote speech to the annual meeting, Mr Michel Camdessus, the IMF managing director, noted that US exports to China, the Middle East and Latin America grew in 1991 and 1992 at 10 times the rate of increase of US exports to western Europe. Japanese exports to the same markets grew 10 times faster than Japanese exports to the US. While EC exports to the US and Japan declined, the Community's exports to China, the Middle East and Latin America increased by 13 per cent.

> The chorus in favour of a Uruguay Round deal has grown into a crescendo

Against this background, the chorus in favour of an early resolution of the Gatt round has grown into a crescendo.

Officials take notice when the IMF's policy making Interim Committee, which represents all the Fund's membership, says it expects "leadership and vision from all in order to resolve the remaining issues and conclude the [Uruguay] Round by the end of the year".

The repeated insistence on a speedy end to the Gatt round should put pressure on negotiators in Geneva and on prime ministerial offices at home.

The strong language of the Interim Committee statement means that the finance ministers and central bank governors representing the IMF's members are really saying that the G7 heads of government who said after this year's Tokyo Summit that completing the Gatt round was their "highest priority" will be manifestly lacking in "leadership and vision" if the talks fail.

Any final verdict on this week's G7 and IMF talks will hinge on whether the round is completed successfully.

In spite of all the problems surrounding the round, it is too early to predict failure. International trada negotiations always go to the limit.

There are, among the finance ministry and central bank officials who attended this week's IMF and World Bank meetings, some who argue that a positive conclusion will ha reached because the mid-Dacember deadline, unlike all the others in the past seven years of trade negotiation, is so obviously a final crunchpoint.

Germany seeks to join enlarged Security Council

By Ian Davidson in New York

GERMANY yesterday offered itself as a candidate for a permanent seat in an enlarged United Nations Security Council, but in lukewarm terms which fell short of an outright demand.

Debate has gathered momentum within the UN membership on the question of reforming and expanding the Security Council, currently dominated by the five permanent members: the US, UK, Russia, France and China, which hold their seats as a result of their victorious role in the second world war. The US has recommended Germany and Japan should both become permanent members, but neither country has campaigned openly for a seat.

Yesterday, in his address to the UN General Assembly, Mr Klaus Kinkel, German foreign minister, said only that "Germany is prepared to assume responsibility as a permanent member of the Security Council".

But he hinted Germany supported growing demands from developing countries that they too should gain representation on the council. "We will only be able to maintain and strengthen the credibility of the council if we also take into our consideration the growing importance of the Third World," he said.

Japan has taken an even more cautious line in the debate. On Monday, Mr Morihiro Hosokawa, Japan's prime minister, acknowledged that there was a "need to expand the membership of the Security Council," but his only further comment was "Japan intends to participate constructively in the discussions."

One reason for both countries' reticence is they are inhibited, by the legacy of their roles in the second world war, from the use of military force overseas. This is widely seen as a serious handicap in the new era of expanded UN peacekeeping.

Mr Kinkel yesterday claimed that there was "a consensus in our country in favour of widening our scope for contributing to peace," but tacitly acknowledged there were still significant restraints on Germany's freedom of action. "We are engaged in a passionate debate over proposed constitutional nmendments which would enable Germany to participate in all UN operations without restriction."

Mr Kinkel also called for "an international convention to regulate large-scale refugee movements." He did not explain how such a convention would in practice impede the large scale flight of populations displaced by civil wars, as in former Yugoslavia.

But he stressed the importance of strengthening international support for human rights, including tha appointment of a High Commissioner for Human Rights, tha establishment of a permanent international criminal court, and an early start to the work of the UN's ad hoc tribunal to prosecute perpetrators of human rights abuses in the former Yugoslavia.

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Video on BT lines moves closer

By Raymond Snoddy

BRITISH TELECOM yesterday cleared an important regulatory hurdle on the way to launching a multi-billion pound video-on-demand service down its telephone lines.

The Independent Television Commission said yesterday that after discussions with Oftel, the telecommunications industry watchdog and the Department of Trade and Industry it did not think BT would need a special local delivery licence under broadcasting legislation.

The ambitious plan to deliver feature films and other television programmes to consumer's screens along the telephone network which reaches 23m homes in the UK would have been stopped in its tracks by the need to have such a licence.

Apart from delivering pictures of video recorder quality, BT says orthodox telephone lines can simultaneously cope with a telephone call and the data involved in managing the system.

The ITC said it was making clear to all parties involved that it did not think a service that consisted of transmitting individual programmes to one household at a time in response to a request needed a local delivery licence.

The Commission added, however, that detailed consideration of the 1990 Broadcasting Act had not removed all legal uncertainty and the issue may yet have to be resolved in the courts. A final ITC view would also depend on what was proposed in a detailed application.

Labour leader wins vital victory

By Philip Stephens, Political Editor

MR JOHN SMITH last night stamped his authority on the Labour party with a narrow but critical victory in his battle to inject greater democracy into its links with the trade unions.

After a day of drama and intrigue at the party's Brighton Conference, Mr Smith declared that a decision in favour of a one-member-one-vote (OMOV) system to select parliamentary candidates marked "a great day for the Labour Party".

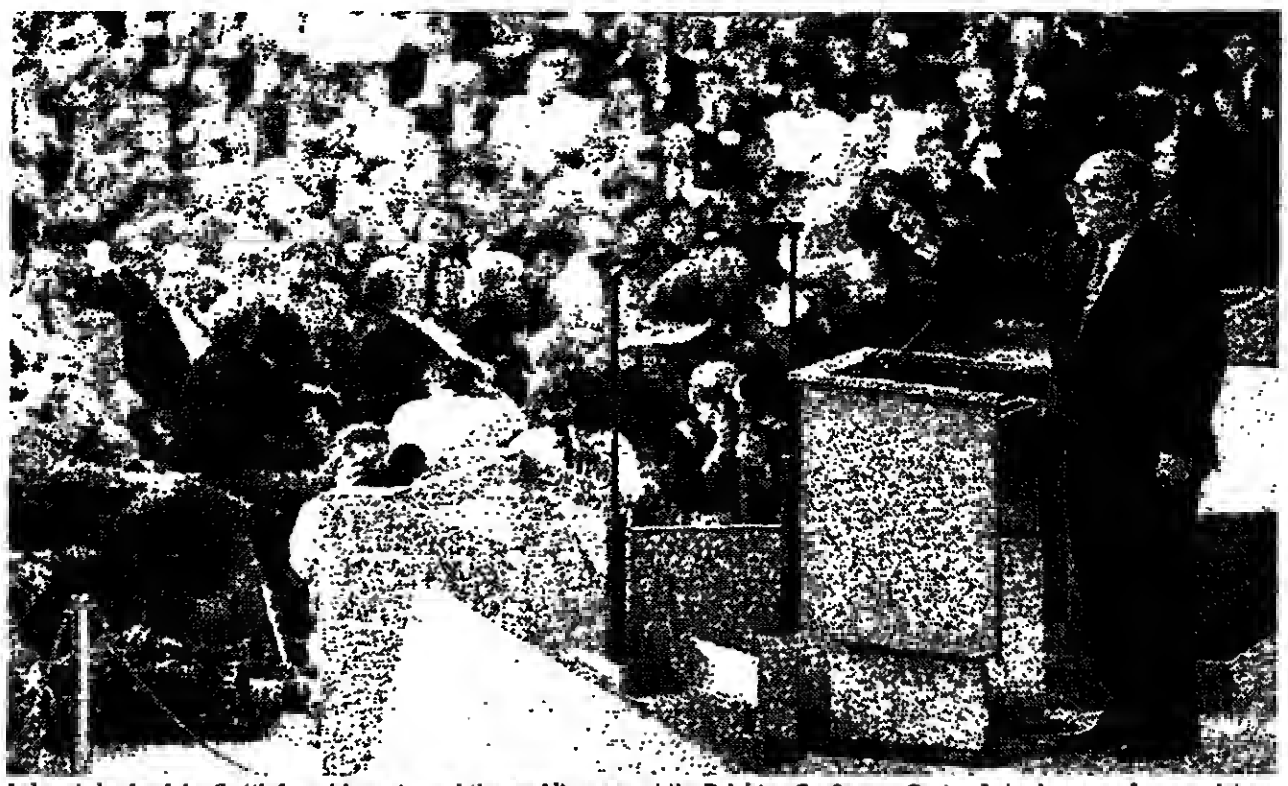
Earlier he had gambled his leadership on the outcome, arguing that without a willingness to inject democracy into its own decision-making Labour could not win the trust of the electorate at a general election.

In a nail-biting conclusion, Mr Smith secured the 47.5 per cent to 44.3 per cent margin for his plan only after a last-minute switch by the MSF union and a powerful plea for unity from Mr John Prescott, the party's transport spokesman.

But the Labour leader won comfortable majorities for a series of othar constitutional changes which will reduce the trade unions' influence at party conference and in the election of the leader.

The now infamous "block vote" at the annual conference will be replaced by a system of individual voting by the trade unions, although the unions will still wield 70 per cent of the total number of votes.

Mr Smith said that by drawing a line under the year-long dispute over internal democracy the party could now move forward "to advance our agenda for full employment and social justice". He added: "This is an important step towards victory at the next general election".



Labour's leader John Smith faces his party, and the world's press, at the Brighton Conference Centre. Later he won a famous victory.

But the victory over opposition led by the party's biggest paymasters – the TGWU and GMB general unions – was not without its confusion.

Although the delegates passed the vital change in party rules sought by Mr Smith, it also supported a conflicting motion proposed by the TGWU. Mr Bill Morris, the TGWU general secretary, indicated that his union would continue to fight OMOV.

That stance, however, was brushed aside by Mr Smith who insisted that the change was now irreversible. Mr John Edmonds of the GMB indicated also that he would accept the outcome, saying that the party leadership and the unions could now unite behind Mr Smith's policies for the economy and welfare state. Mr Edmonds added, however, a warning that any further attempts to diminish the role of the unions would provoke another damaging battle.

The excruciatingly narrow victory followed a day of arm-twisting, pleading and cajoling to secure enough votes for Mr Smith. Mr Neil Kinnock, the former party leader who began the process of reform, emerged as a pivotal figure in winning over waverers to his successor.

Among the extraordinary tactics employed to win over smaller trade unions was a warning from Mr Smith that a defeat would wreck separate plans to promote the role of women in the party.

The other critical point was a passionate address by Mr Prescott, a leading figure on the left and a much trusted figure among trade unions. Mr Prescott's unequivocal backing for the proposals contrasted sharply with attempts by Mrs Margaret Beckett, Mr Smith's deputy, to distance herself from the plans.

That in turn raised strong speculation - openly encouraged by some members of the shadow cabinet - that Mr Prescott will face pressure to challenge Mrs Beckett for the deputy leadership next year.

Leading "modernisers" in the senior ranks of the party said that Labour could now resume the process of dumping the "ideological baggage" which had cost Labour four election defeats.

Under the new procedures for the selection of the party's parliamentary candidates, the unions will lose their institutional role. But individual members of the unions who pay the political levy will be able to join local parties at a reduced fee of £3pa.

Clarke warned over remarks on indirect taxation

By Neil Buckley and David Owen

BUSINESS leaders, retailers, and MPs united yesterday to warn that extending indirect taxes could be disastrous for consumers, industry and the government.

Their comments followed yesterday's remarks by Mr Kenneth Clarke, the chancellor of the exchequer, in which he clearly hinted that any tax increases in the Budget would be on spending rather than incomes.

Mr Clarke told the annual meeting of the IMF and World Bank in Washington that he was aiming for a sustained recovery "drivan by investment and exports not consumption, by the private sector not the state."

But Mr Howard Davies, director-general of the Confederation of British Industry, said that while the British economy was growing, "recovery is patchy and still fragile. We need a Budget for investment."

The British Retail Consortium, which represents 90 per cent of UK retailers, has written to Mr Clarke and says it is "completely opposed to any extension of the VAT base".

Many retailers, including Argos and Sears, have warned that increases could damage consumer spending. They fear that moving the Budget to November could devastate all-important Christmas trading.

Extending VAT on to exempt products such as children's clothing, basic foods, and books was seen as highly emotive. "VAT on children's clothes is nothing less than a tax on the growth of our children, and that is immoral," said Mr Bryan Green, executive director of the National Childrenswear Association.

Mr Keith Edelman, new chief executive of Storehouse, which includes Mothercare, said VAT on children's clothes would be "bad news for our customers at a time when research shows family budgets have already been squeezed hard by the recession.

Mr Paul Dowling, corporate affairs director of Asda, said: "I can't believe Mr Clarke would want to be remembered as the man who put tax on a bottle of milk." He warned that despite intense competition in the food market, supermarkets would have to pass VAT increases on to consumers

Mr Tim Godfrey of the Booksellers Association warned that imposing VAT on books would be a tax on reading. "Economists predict consumer sales of books would fall by at least 15 per cent. That would mean there would be fewer books around, fewer books in the home, and standards of literacy would deteriorate."

Booksellers and publishers have launched Books Add Value, which will be lobbying MPs.

The chancellor's comments sparked an immediate reaction from rightwing Conservative MPs. Mrs Teresa Gorman MP said higher taxation would be absolutely devastating for the Conservative party. "The way to deal with this problem is not by more taxation but by the government cutting public spending in Whitehall and the town halls."

Britain in brief

Kuwait's tax bill on BP to be probed

The Inland Revenue has launched a formal investigation into whether Kuwait should repay more than £500m in tax refunds, which it received in connection with its $1.7bn investment in British Petroleum.

The Financial Times disclosed last week that the Gulf state may have abused its sovereign immunity from taxation in relation to its purchase in the late 1980's of a stake close to 22 per cent in BP.

£1.5bn regeneration plan for Glasgow

A partnership of government agencies and local councils is to spend £1.5bn regenerating Glasgow's most disadvantaged areas during the next 10 to 15 years.

Eight districts of the Scottish city will be targeted, with the aim of providing jobs, better housing, roads and transport, and improving the environment.

Recession pushes down tax receipts

The recession helped pushed down tax revenues to the lowest levels for five years in 1992-93, according to figures released by the Inland Revenue.

Net receipts fell to £76.1bn in the 12 months to March 1993, against £79.7bn last year, the Revenue's annual report showed. That included net receipts from income tax of £56.5bn and from corporation tax of £16bn.

Photocopier leasing companies rebuked

There is evidence of "unacceptable practices" in the photocopier leasing market, according to Sir Bryan Carsberg, director general of fair trading. He called on the industry to reform itself, warning that otherwise be would take direct action.

Sir Bryan's remarks follow widespread complaints in the past year about contracts issued by some photocopier dealers, which are alleged to involve customers in hidden costs and enormous cancellation fees.

An Office of Fair Trading investigation into the office equipment leasing market was launched in February.

Limited period to profit from coal

Whoever buys British Coal will only have four years to make most of their money out of next year's privatisation, according to a new study of UK coal prospects written by the company's former director of economics.

Mr Mike Parker says that the pressures on the coal industry are such that its long term prospects are in doubt.

British Coal's core business depends almost entirely on its five-year contracts to supply the electricity generation industry. When these expire in 1998, the business becomes "very risky" because the final stage in deregulation of the electricity market that year will encourage a switch to short term contracts.

Road network now largely complete

New motorways through virgin countryside are "a thing of the past", said Mr John MacGregor, transport secretary.

The road-building programme was now concentrated on bypasses and improvements to the existing motorway and trunk road network.

He said: "Our efforts are focused on getting the best from our broadly completed motorway network by widening and improving the roads that are already there."

Property market regains its spirits

A mood of optimism has gripped lenders to the commercial property industry, according to a survey by Chesterton Financial, property advisers and CSW, a property magazine.

More than half of the banks and financial institutions questioned expect to see an improvement in the market over the next six months, while 88 per cent were optimistic about prospects over the next 12 months.

Optimists about the market's prospects in the next six months outweighed pessimists by 30 per cent. In January, the pessimists outweighed optimists by 23 per cent.

Further delay for press white paper

The government has delayed again a white paper on the press and privacy.

The National Heritage Department first promised a white paper before the summer recess, then suggested that the document would come during the recess.

Yesterday, Mr Gerald Kaufman, an opposition MP and chairman of the Commons national heritage committee - which has looked into issues of press and privacy - was told that the government response to their report would be further delayed.

Opposition reveals minister's rail plans

A leaked copy of the working diary of Mr John MacGregor, the transport secretary, was quoted by Mr John Prescott, opposition Labour party transport spokesman, at the party's conference.

In a bid to embarrass the government, Mr Prescott predicted what Mr MacGregor is likely to announce in his speech to next week's Conservative party conference, including: October 19 as the start date for the Victoria station to Gatwick airport rail franchise service; that the first Channel tunnel train will visit London's Waterloo central main line station in October of this year; that work on the eastward extension of the Jubilee underground line will start on November 1.

Mr MacGregor commented that his diary only contained what people expected. "There are no surprises in it at all," he said.

Pools heir to found midlands art gallery

Mr Peter Moores, the heir to the Littlewoods football pools empire, has announced plans to establish an art gallery at Compton Verney, a mansion near Stratford-upon-Avon in the west midlands. It will form part of a planned centre for exhibitions and the performing arts.

A separate charity, meanwhile, aims to build a £50m opera and ballet house in the grounds of the estate, which it is hoped will open in 1997.

FC assets on the football field

English football clubs would add more than £250m to their assets if they included the value of their players in their accounts, a survey by accountants Touche Ross said yesterday.

Only four clubs showed the players' value on their balance sheet as an intangible asset, in spite of the substantial sums paid for transfer fees, the survey showed.

In the 1991-92 season – the latest for which figures are available – English football league clubs spent almost £75m on players. The first division – now the FA Carling Premiership – spent £70m, up from £40m the previous year.

Blackburn Rovers spent the largest net amount on transfers – £6.84m in the year.

The survey covered the accounts of 84 clubs. It showed that 53 of the clubs reported pre-tax losses.

In addition 27 clubs had their accounts qualified by their auditors over worries that they might not be "going concerns" in the future.

AVIATION

BA starts incentive war over air miles

By Daniel Green

BRITISH AIRWAYS yesterday fired the starting gun in an incentive war aimed at attractive passengers to airlines during the slack winter season.

The company's £15m promotion effectively donbles tha benefits of its frequent flyer programme for the next six months. Passengers buying full price tickets in any class will collect douhle "air miles" towards collecting free flights.

Passengers must nominate by the end of March a destination to which they want to fly. The time limit for taking the flight varies according to the country of residence of the traveller. Points can be transferred to family members.

The UK's other scheduled long-haul carrier, Virgin Atlantic Airways, will in the next few days announce its own incentive package. This will include new ways of collecting frequent flyer points in links with American Express, Air New Zealand, British Midland and Scandinavian Airline System.

American Express will spend £3m on a promotional programme and Virgin plans to announce several more partners before the end of the year.

United Airlines, one of the biggest US carriers, is preparing direct mailshots offering bonus points for trips this winter, while Japan Air Lines is already four weeks into a double points promotion.

BA's promotion differs from many others in that it forces travellers to specify which destination to which they want to travel free.

This "crystallises our liability", explained Mr Robert Ayling, BA's group managing director, yesterday. It is an attempt to forestall the accumulation of huge and unpredictable obligations to give away free tickets, as has happened with some US carriers, said Mr Ayling.

BA is aiming specifically at the business user hy limiting the offer to huyers of full price tickets.

Discounted tickets will only earn frequent flyer bonus points in countries such as the US and Australia.

● BIRMINGHAM International Airport, Britain's fifth largest hub, is seeking up to £400m of private sector investment to fund expansion over the next 10 years, the local authority owners said yesterday.

Launching a long-term strategy for the airport, the seven shareholding councils eaid work on terminal and runway developments could create up to 11,000 jobs in the region.

Hoover offer not liable for prosecution

By Guy de Jonquières, Consumer Industries Editor

TRADING STANDARDS officials yesterday ruled ont criminal action against Hoover over its disastrous free-flights offer but criticised it for failing to foresee that the scheme would go so badly wrong.

Mid-Glamorgan trading standards department, which has received almost 2,000 complaints from Hoover customers, said it had received legal advice that there were no grounds for prosecution.

The department, which has spent six months investigating the offer, said criminal action could be brought only if Hoover could be shown to have known in advance that their statements abont the free flights were false and if they were criminally careless.

It said that while Hoover might be accused of "extreme gullibility" for grossly miscalculating the likely take-up of its offer, there was no evidence that the company had set out to deceive or defrand."

The department conducted its investigation on behalf of trading standards authorities throughont the country. It said Hoover customers who had not received free flights could still take civil action.

Hoover said 103,000 people had so far flown under the free-flights scheme and that abont 12,500 tickets were being issued every month. It would not say how many applications remained to be dealt with.

BAe plan to expand Bristol airfield

By Roland Adburgham, Wales and West Correspondent

BRITISH AEROSPACE yesterday applied for planning permission to develop its airfield at Filton, north Bristol, as a commercial airport running scheduled services.

The proposal is highly controversial because several thousand houses have been built in recent years near the airfield. It also threatens the viability of the existing Bristol airport at Lulsgate.

BAe says it needs to make better use of the airfield to protect the future of its Filton plant. BAe said it did not need planning consent because it already had a commercial licence. After public pressure, it backtracked.

In its application to Northavon District Council, BAe says it expects to scheduled flights, primarily for business passengers, and would agree to prohibit all-inclusive charter tours.

It would only use quiet aircraft such as the BAe 146 jet and restrict air traffic movements to 23,000 a year, and night-time movements to 20 a night. It says the terminal building would limit passengers to 350,000 a year.

Northavon council expects to take several months to reach a decision. It is likely that the environment secretary will decide to hold a public inquiry.

Judge rules night flight plan 'unlawful'

By Paul Betts, Aerospace Correspondent

GOVERNMENT proposals to increase the number of night flights at London airports including Heathrow, Gatwick and Stansted would if implemented be unlawful, the High Court ruled yesterday.

The decision is a blow to both the government and BAA, the privatised airports operator, which had been seeking to introduce more flexibility for aircraft movements at Heathrow, one of the world's biggest and most congested international airports.

The government was planning to introduce a new quota system for night flights based on the noise performance of aircraft to replace the current system based on a specific number of aircraft movements.

Both the government and BAA argued that the new system would encourage the use of more efficient and less noisy aircraft.

Mr Justice Laws yesterday granted the local councils a declaration that the proposed new noise regulations were not authorised by the 1982 Civil Aviation Act.

The judge said the government had been wrong not to set a ceiling on the number of night flights authorised at London airports.

Inquiry into distribution of films

MMC to probe complaints, says Michael Skapinker

Not coming soon to an independent cinema near you

THE DISTRIBUTION of films to cinemas has been referred to the Monopolies and Mergers Commission by Sir Bryan Carsberg, director general of fair trading.

Sir Bryan said yesterday that the Office of Fair Trading had decided to investigate the film industry after complaints from independent cinemas that they found it difficult to obtain popular movies from large distributors.

Independent cinema owners welcomed tha MMC inquiry but large companies termed it unneceesary, saying the increase in multi-screen complexes and a sharp rise in attendances meant consumers now had a wide choice of films.

Sir Bryan said the independent cinemas' difficulties had continned despite changes which followed an MMC report in 1983. The report resulted in the prohibition of 'barring', under which distributors decide in advance which cinemas have the right to show films first.

Sir Bryan said: "Most major companies are vertically integrated into the prodnction, distribution and exhibition of films in cinemas and follow practices which could lead to the exclusion of independent prodncers, distrihutors and exhihitors from tha marketplace."

He added: "I am aware of the changes that have taken place, such as the emergence of multiplex cinemas, but I consider that competition remains restricted to snch an extent that it is appropriate for the MMC to undertake a fresh investigation."

Mr James Higgins, president of the Society of Film Distributors, said he was confident the Commission would find that distributors and cinemas were providing consumers with greater choice than ever before.

He said £500m had been invested in new cinemas over the past 10 years, a larger amount than in any other country. Cinema admissions had increased from 52m in 1984 to over 100m last year.

Mr Higgin said films were heing distributed far more widely than at the time of the last report. He said that a decade ago, 220 copies of the film ET had been distributed to UK cinemas, which was then a record. He said that 450 copies of Jurassic Park, this year's hlockbuster, had been distributed.

He added that no cinema was now allowed to hold exclusive rights to show a film for more than four weeks.

Mr Chris Hedges, UK managing director of United International Pictures, a distribution joint venture between Paramount Pictures, Universal Studios and MGM, said independent cinemas were gaining easier access to films than in the past.

He said: "We are aware that there has been a lot of publicity generated hy a few members of the independent sector hut there's no question of our discriminating against anyone."

The Society of Film Distributors said that a decade ago 220 copies of the film ET had been distributed to UK cinemas - which was then a record. Now 450 copies of Jurassic Park, this year's popular blockbuster, had already been distributed to UK cinemas.

Mr Tony Kirkhope, managing director of the independent two-screen Metro Cinema in central London, said, however, that he had difficulty obtaining US pictures. He said: "They don't offer them to us – only the dogs." He conceded the large companies had expanded the market by investing in better cinemas. But he said the large distributors had "made it amply clear they weren't going to deal with the independents in the West End."

Mr Geoffrey Henshaw, owner of the three-screen Cine City cinema in Manchester, said small operators found large distributors' terms onerous. Mr Henshaw, who is chairman of the independents' sub-committee of the Cinema Exhibitors' Association, said distribntors insisted that cinemas show their films for three weeks.

He said this caused particular difficulties for single-screen cinemas which could not afford to carry the losses of a poorly-attended film for that long.

Nuclear Electric seeks new markets

By David Lascelles, Resources Editor

NUCLEAR ELECTRIC, the state-owned power utility, wants the right to sell electricity directly to large industrial consumers in the UK, bringing it into head-on competition with the privatised generation companies.

Nuclear Electric will be applying today to Offer, the power industry regulator, to become a "second tier supplier" which would enable it to enter into contracts with large consumers. At the moment, Nuclear Electric is restricted to selling into the pool, the wholesale market for electricity.

Although Offer will review the application, Mr Michael Heseltine, trade and industry secretary, will have the ultimate say. Nuclear Electric's move, however, will be welcome to the government because it should sharpen competition in a market where there have been loud complaints from industrial users about rising prices.

Large companies like Imperial Chemical Industries, Blue Circle Industries and British Steel have been demanding action from the government to bring electricity costs more in line with those of their continental competitors.

If it gets the go-ahead, Nuclear Electric intends to offer 15-year fixed price contracts to industrial users who have steady 24-hour demands. A significant point of concern for the other generators is that Nuclear Electric should not be allowed to use the £1.2bn nuclear levy to subsidise its prices in the industrial market.

MANAGEMENT: MARKETING AND ADVERTISING

Commercial casts are changing, reports **Victoria Griffith**

Realism slots on the screen

Anyone judging US society by its television commercials over the past 30 years would probably assume that most Americans are white, young, attractive and vigorously healthy.

Lately, however, an increasing number of slots are presenting casts in a more non-traditional light. Middle-aged women are seen touting fashion, youths with Down's Syndrome appear in slots for McDonald's and Dow Chemicals, and an all African-American cast sells Hallmark cards.

Not only do the newly diversified casts present a more realistic view of American society, but they also sell products. "Our slot featuring an employee with Down's Syndrome has been very effective," says Jane Hulbert, a spokesperson for McDonald's.

In part, the new diversity reflects a greater awareness by advertisers of their target audience.

'A company which features a disabled person is often seen as more caring and more sensitive than other companies'

"We just finished an all-black advertisement for the Atlanta market," says Cheryl Berman, executive vice president in charge of creative services for the advertising agency Leo Burnett. "Since Atlanta is a predominantly black city, that made a lot of sense."

Advertisers say mainstream Americans are also becoming more receptive to non-traditional casts in commercials. "Americans have become much more sophisticated about accepting diversity in advertising," says Gerard Saviola, head of casting services for Grey Advertising in New York. "They see as positive what may once have turned them off."

Heightened pressure from acting unions has something to do with the changes. The Screen Actors Guild in New York, for instance, actively promotes the casting of women, minorities, the elderly and the disabled in positive roles.

"We've made a lot of progress, although certain things still remain largely taboo, like showing families in inter-racial marriages," says Elaine Brodey, executive administrator of affirmative action for the Screen Actors Guild in New York.

Advertising agencies say using non-traditional casts often makes for more interesting commercials. A slot for Hallmark greetings cards, for instance, features a surprise 100th birthday party for an African-American woman. The story provides a twist, though, when the woman tells the driver that although she already knows about the party, she will pretend to be surprised.

Another spot for Dow Chemicals' Spray 'n Wash Stain Stick features a little girl with Down's Syndrome.

"We use Stain Stick," says the mother in the commercial, "because the last place we need another challenge is in the laundry room."

The use of non-traditional casts can also reflect positively on the companies trying to sell their products.

"A company which uses a disabled person, for instance, is often seen as more caring, more sensitive than other companies," says Berman. Still, the use of non-traditional casts poses some problems – advertisers risk criticisms of stereotyping.

"A lot of commercials use senior citizens as protagonists, but too often it's in a negative light, showing them as hard of hearing, or not quite with it," says Saviola. "We not only need more diversity, but we have to present the diversity in a sophisticated way."

The use of disabled people in commercials is probably the most controversial. "There's is always the danger of a backlash, or the danger that you'll be accused of exploitation," says Berman. "It's a fine line you have to tread."

Eamonn Bo

John Sorrell: 'It's misleading to look at the effectiveness of the organisation in terms of headcount and amounts of money'

A firm belief in reincarnation

The Design Council's new chairman claims reports of its death have been exaggerated, says **Diane Summers**

The view from Utopia is that something very constructive has just happened to the Design Council.

To the rest of the world it seemed last week that the 49-year-old body was to be dismembered and buried, at least in its present form. The government announced that it planned to integrate many of the council's functions into the new Business Links network of service centres for smaller businesses.

But to John Sorrell, who takes over as chairman of the redesigned council in January and whose consultancy Newell and Sorrell is based in the small north London enclave of stylish businesses called Utopia Village, the possibilities of reincarnation are immense.

"There's been too much talk of 'dismantling'. This is refocusing. It's exactly what's happened with a large number of household-name British industrial companies – they've refocused, restructured and they're stronger than they were before."

Sorrell, a former chairman of the Design Business Association, is chairman of the design consultancy he founded with his wife Frances Newell in 1976. Its principal business is corporate identity and the Automobile Association and Inter-City are two of its best-known clients.

Not that Sorrell will be spending all his time at Newell and Sorrell in the coming months. He will be heading a review of all the Design Council's activities with the aim of getting it into its new shape by the end of next year.

His review will not, he says, be circumscribed by a new pre-set budget, although it is widely thought that the government will cut the council's grant from £7.5m to less than £3m.

"It's incredibly misleading to look at the effectiveness of the organisation in terms of headcount and amounts of money," he says. Instead, he will be guided by the government's plan to deliver services through Business Links wherever possible.

Sorrell is anxious not to be seen to be pre-empting the review. "We anticipate that the various information and advice services which are currently available – such as the Design Advisory Service, the Materials Information Service, the Consultancy Register, the Product Development Advisory Centre – will need to be looked at in terms of their integration into Business Links if ministers' strategy is to be followed," he says.

Also under scrutiny are the council's magazines Design and Engineering, its premises in Haymarket, London, and the design awards. The council's acclaimed education work it is thought will continue to be carried out centrally.

A significant problem for Sorrell to consider in these early stages lies in transferring services to Business Links – only three of the 200-plus planned Links have been forged.

Sorrell says: "It would be an absolute disaster if there were disruption. If certain services are to be transferred, then we'll do it very calmly, very carefully."

So what will the council be left with when the review is over? Tim Sainsbury, Department of Trade and Industry minister, says it should be "a powerful voice for effective design, a bridge between industry and the design community and a vital catalyst stimulating initiatives".

If Sorrell pulls this off he may hold the blueprint for all small but perfectly formed councils, quangos and worthy bodies in Utopia.

'Tis the season for Christmas cards

Lucy Kellaway explains why charities often get a bad deal

Summer is over, and it is time to choose the corporate Christmas card. But companies should be warned: many of the old faithful designs have fallen from grace.

Christ may have been born on Christmas day, yet in these multi-cultural times less than 1 per cent of companies send cards depicting Christian themes. Cartoons and any attempt at wit are also widely avoided.

Instead, the height of fashion in cards is an international theme, according to card printer Almanac Gallery. A spherical fruit cake with a map of the world on it, or a dove of peace are both trendy choices.

Cards with animals and a conservation message are also catching on, while trusty corporate favourites such as London scenes and snowy landscapes are as popular as ever.

Almanac's market research shows that companies send out on average 400 cards a year, and that chairmen, who order their Christmas cards separately, send on average 150 each.

Larger companies and those in the service sector send out far more: one company in the leisure market sent 50,000 cards last year and a merchant bank sent 30,000.

However, the number of companies opting for charity christmas cards is fairly low – just 8 per cent of the market.

Part of the problem for charities is that the print quality is sometimes poor. Another more fundamental difficulty, especially for smaller ones, is the expense of marketing the cards, which often leaves little profit after sales.

Not all companies are potential buyers of charity cards: architects and designers nearly always use the card to advertise their own talents while banks like to commission their own. Accountants and solicitors tend not to send out cards at all.

Even with such groups excluded, the market has great promise. "At least 70 per cent of the potential charity Christmas card market remains undeveloped," estimates Darryl Williams of Almanac.

In order to increase sales a charity must keep updating its mailing list, even though it stands little possibility of building a solid customer base. This is because companies normally decide to buy a charity card on the strength of the card itself, not of the charity. This means that even if a charity sells to a company one year, the chance of a repeat sale next year is about one in 10.

Almanac believes it has come up with the perfect marketing solution that will allow charities to sell their cards more cheaply. It has launched "The Christmas Collection", a catalogue devoted to cards from many different charities. It features the requisite global christmas puddings and snowscapes and represents a range of charities from household names like Oxfam to more obscure charities like The Movement for Non-Mobile Children – Whizz-Kidz.

All the cards are different, removing competition between charities based on the picture design.

The idea is that one charity may lose this year's clients next year, but it may pick up those clients lost by other charities.

To advertise in the catalogue, the charities pay only the printing and distribution costs. The catalogue is effectively a clearing house for cards and the charities receive all profits from sales.

So how does Almanac benefit? It hopes to persuade charities to choose Almanac to print their cards. "We are trying to create a climate where it is not on if companies do not to send charity cards," he says.

LEGAL NOTICES

NOTICE OF TENDER PROCEDURES FOR

Olympia & York Water Street Finance Corp.

8½% Secured Coupon Notes and Secured Zero Coupon Notes due June 30, 1996 (the "Notes")

Pursuant to the Second Amended Plan of Reorganization of

Olympia & York Water Street Finance Corp.

and

O&Y Water Street Credit Corp.

The Second Amended Joint Plan of Reorganization (the "Plan") of Olympia & York Water Street Finance Corp. ("Finance Corp.") and O&Y Water Street Credit Corp. ("Credit Corp." and, together with Finance Corp., the "Debtors") was confirmed on September 14, 1993 by the United States Bankruptcy Court for the Southern District of New York. As provided in the Plan, on the Consummation Date (currently contemplated to be October 5, 1993) (the "Consummation Date"), all of the Notes previously issued by Finance Corp. will be deemed cancelled and terminated and each holder of record of such securities will be entitled to receive a distribution under the Plan of (i) a check for a Cash Payment or (ii) shares of New Common Stock and, if a holder so subscribed, (iii) shares of New Preferred Stock based on his prior elections made in its timely executed and returned Individual or Master Ballots.

In order to receive distributions under the Plan, duly executed and properly completed Letters of Transmittal must be sent to IBJ Schroder Bank & Trust Company as the Disbursing Agent (the "Disbursing Agent"), together with certificates representing the Notes. Holders of the Notes are urged to promptly surrender, or cause to be surrendered the certificates representing their Notes. Any holder of Notes who fails to (i) surrender or cause to be surrendered to the Disbursing Agent his or its certificates representing the Notes, together with a properly executed Letter of Transmittal or (ii) execute an affidavit in form and substance satisfactory to the Disbursing Agent and the Reorganized Debtor that his or its certificates were lost or destroyed and provide such security or indemnity as may be required by the Disbursing Agent or the Reorganized Debtor on or prior to the fifth anniversary of the Consummation Date, shall be deemed to have unconditionally and irrevocably waived, relinquished and forfeited all rights, claims and interest in, and to any distribution to be made under the Plan.

Should you as a holder of the Notes require a Letter of Transmittal or should you have any questions concerning the surrender of your certificates for the Notes you should contact the Disbursing Agent directly at (212) 858-2103. Any written communications to the Disbursing Agent should be made to the following addresses:

IBJ SCHRODER BANK & TRUST COMPANY

By Hand Delivery (or Overnight Courier):	*By Mail*
IBJ Schroder Bank & Trust Company One State Street Plaza New York, New York 10004 Attention: Securities Processing Window, Floor SC-1	IBJ Schroder Bank & Trust Company P.O. Box 84 Bowling Green Station New York, New York 10274-0084

CONTRACTS & TENDERS

A·U·D·I·T

THE AUDIT COMMISSION - INVITATION TO TENDER

The Audit Commission and its auditors promote proper stewardship of public finances and help those responsible for the management and delivery of public services to achieve value for money in the use of their resources.

The Commission is an independent body set up in 1983 which appoints the external auditors to all local authorities and NHS bodies in England and Wales. The Commission wishes to invite bids from firms of accountants who wish to be considered for appointment as auditors for a number of audits in London, north east England and the Midlands.

The appointments will run for 3 years with effect from 1st April 1994, with the possibility of a 2 year extension subject to satisfactory performance.

The audit of public funds differs in significant respects from private company audits and prospective candidates for appointment as auditors will be required to demonstrate that they have the necessary skills, experience and knowledge to enable them to fulfil the wide range of statutory audit responsibilities and to deliver work of the requisite quality.

Please note that firms must be able to demonstrate compliance with the ICAEW guidance that fees arising from the work of a single client should not exceed 10% of the firm's total audit fees. As a guideline, it is estimated that each of the groups of audits will provide fee income in the region of 200,000 to £500,000 per year.

Expressions of interest must be received by Friday 15th October. They should be addressed to *Harry Wilkinson, Director of Accounting Practice, Audit Commission, 1 Vincent Square, London SW1P 2PN.* Interested firms will be required to submit preliminary information to demonstrate their eligibility for this work by Friday 5th November. A small number of firms will then be asked to submit bids based on more detailed information by mid January 1994.

TECHNOLOGY

The biotechnology sector is entering a more mature phase, better equipped to face market hazards, says **Victoria Griffith**

A healthy dose of confidence

A series of disappointments has wreaked havoc in the US biotechnology sector over the past 18 months, but analysts say the industry may be on the threshold of a new and more positive phase.

"The future is very bright," says Jeffrey Swarz, biotechnology analyst at First Boston, the US investment house, in New York. "Wall Street hasn't yet completely grasped this, but it is beginning to."

The reason for such optimism is a recent spell of good news, which has lifted the mood in the industry. Revenues for the sector were up by 20 per cent in the first six months of 1993 according to a study by consultants Ernst & Young.

The late summer approval of Betaseron, the first new drug to treat multiple sclerosis for a generation, boosted the stock price of Chiron, the US biotechnology company which makes the drug for Schering, the German group whose shares also shot ahead in Frankfurt on the news.

Genentech has also scored an important victory with the Food and Drug Administration's advisory committee approval of DNase, a drug to treat cystic fibrosis which works by breaking up the excess DNA that accumulates in the lungs of sufferers. "These approvals have restored some credibility to the sector," says Teena Lerner, a biotechnology analyst with Lehman Brothers in New York.

Credibility with Wall Street is essential for the health of the biotechnology industry, which requires large doses of investor confidence to help it raise money

'There seems to be more discrimination on the part of investors between large, stable firms, and the rest'

for expensive and lengthy drug development.

The past 18 months have seen a severe drought in financing for the industry. The sector has suffered several disappointments, which helped to depress stock prices in 1992 and the early part of 1993. Last year, the FDA denied approval for two septic shock drugs in the final stages of development – Centocor's Centoxin and Synergen's Antril. And jitters over the repercussions of President Bill Clinton's health plan have helped keep prices low through much of 1993.

Despite the recent upturn in confidence, there is still concern that, in the face of a hostile investment environment, the sector is trying to grow too fast. The Ernst & Young report pointed to the problems of fast-diminishing cash reserves in the industry.

"The current financing environment is a limiting factor," says Henri Termeer, chairman of Genzyme Corporation. "You can't keep offering new products without the support of the financial markets."

The need for new funds is far more acute at start-up companies than at the more established companies. A handful of biotechnology groups – notably Biogen, Genzyme, Genentech, Chiron and Amgen – have enough products on the market to generate their own cash flow for research and development.

These are the groups most favourably viewed by Wall Street and with the most ready access to financing. "There seems to be more discrimination on the part of investors between the large, more stable firms, and the rest of the field," says Lawrence Kurtz, spokesman for Chiron. "There are less blanket moves of all biotechnology stocks up and down."

Historically, investors are unwilling to put up large amounts of money for biotechnology. This has led to an increasing number of joint ventures between large pharmaceutical and chemical groups.

The strategy has proved largely successful. Applied Immune Sciences continued the trend earlier this year by forming an alliance with Rhône Poulenc-Rorer.

"As long as financial markets are unable to supply biotechnology companies with cash, they will turn to large pharmaceutical groups for investment," says Kirk Raab, president of Genentech.

Some observers worry that the lack of cash could hold longer-term consequences for the sector, however. "There is the danger of premature consolidation in an industry that is inherently financially fragile," says James Vincent, chairman of Biogen.

Companies are hoping that the recent stock price surges in biotechnology will be part of a longer-term optimism on the part of Wall Street.

Cash is becoming dangerously tight at many firms and a new willingness to finance biotechnology research would ease the strain.

Analysts and industry players believe Wall Street now has a better understanding of the drug approval process for biotechnology, and is therefore better equipped to make wise investment decisions.

"Investors now have a later time horizon and realise phase two studies may not be predictive of success," says Kurtz. "This is good news, because it means investors are less open to the kinds of disappointments that bring prices down."

"People used to invest in biotechnology companies earlier than they should have, based on premature claims on pending drugs. Now, the emphasis is more on management, less on science and research."

Raab agrees. "Getting drugs to the market is a longer and harder process than once believed," he explains.

"Not all companies succeed and those that do need mature leadership. Success depends on careful, thoughtful trials and working closely with the FDA."

Investors worry that the number of protein drugs remaining to be discovered is limited, a view vehemently denied by the biotechnology industry. "The pipeline for protein drugs is full, based on research we're already conducted, and this will continue for some time," says Raab. "I think proteins as drugs still have a lot of life. If anything is done on Aids or cancer, for instance, I'm convinced it will be a large molecule drug."

Despite continued enthusiasm for proteins, an increasing number of biotechnology groups is diversifying into small molecule research, and this is seen as a positive move by industry analysts. Since biotechnology companies have a keen understanding of the interaction between small and large molecules, they are thought to have an advantage over many pharmaceutical groups in this area. Of particular importance is current biotechnology research into the use of small molecules in controlling inflammatory diseases, such as asthma and arthritis.

"Traditional pharmaceutical groups, which relied on organic chemistry, have run into a wall," says Swarz. "They realise they should have gone into biotechnology. The future is in proteins, and maybe in the kind of small molecule and genetic engineering research that biotechnology firms are getting into."

The advent of gene therapy may prove an important development for biotechnology, although few of the traditional biotechnology groups have become involved in this area. Genzyme, with a strong commitment in gene therapy, is a notable exception.

Excursions into new areas are thought to be a positive trend for the sector. "To the extent that biotech groups become real companies with diversified risk, they will be more positively viewed," says Termeer.

The growing drug portfolios and increased diversification of the sector may not completely erase the enormous risk involved in the industry.

Still, they may mark the beginning of a new, more mature phase for biotechnology.

"I wouldn't say we're grown up yet," says Raab. "But we're certainly not infants any more. I'd say we've entered our teenage years."

Leap forward for fancy footwear

Della Bradshaw examines a pair of machine-washable leather shoes

Splashing through puddles in leather shoes is the delight of many a child but the nightmare of many a parent. The leather usually dries hard and cracked and the colour frequently fades.

But after years of research, tanners and footwear designers have discovered a way of preventing shiny shoes from becoming shabby.

Newly emerging on shop shelves are leather or suede shoes which can be popped into the washing machine with a cup-full of detergent with the weekly wash. The shoes should re-appear clean and supple, and in perfect shape.

The biggest breakthrough in making machine-washable leather shoes has been in the tanning process, says Steve Rose, head of upper materials testing at Satra, the UK shoe industry's research association.

When the leather comes off the cow, the natural fats in the skin are removed to prevent them going rancid, and a cocktail of oils and greases – some natural, such as fish oil, some synthetic – are added.

The hides are then tanned using chrome salts, which keep the fats in the leather. The problem with detergents is that they are alkaline, and would normally cause the salts to detach and the fats to be washed away.

The latest tanning processes, the exact details of which are closely guarded, use chemically reactive fats: they combine with the leather so that they cannot be sluiced out. The technique is carried out by only a handful of tanneries around the world, notably in the US and Korea.

The process means that rather than being water repellant, as might be expected, the shoes use leather which wets very easily. "When they come out of the machine they are glutinous and swollen," explains Rose.

Salz Leathers, of Santa Cruz, California, originally developed its washable leathers for cycling gloves, explains sales manager Mike Mullins. "We wanted something that was very porous and would dry very quickly. Then we found that we could wash it and that there was a much bigger market out there for it."

Designing machine-washable shoes presents further problems. On most conventional shoes, the soles are stuck on with adhesive bonds which tend to disintegrate in warm soapy solutions. For machine-washable footwear the soles are made of PVC or polyurethane and injection-moulded on to the uppers – so the sole becomes its own adhesive. This largely determines the shoe style: trainers or casual.

Metal fasteners also need to be avoided and the shoe-lining should be sewn in rather than stuck using traditional glues.

Most mashine-washable leather or suede shoes are also white or light coloured, as there are still some problems in making the colour fast if darker dyes are used.

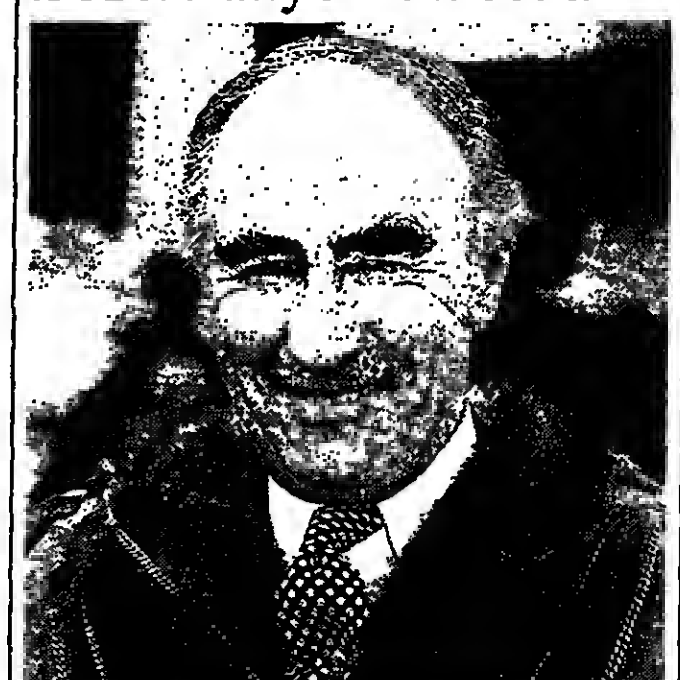
Once manufactured, samples of the shoes undergo rigorous testing. Mike Fletcher, head of the Clarks test laboratory in Street, Somerset, says his company, which also sells shoes under the "K Shoes" brand name, gives the shoes six thorough washes to test for durability.

The obvious appeal of the shoes seems to be translating into sales. Shoe retailers, such as UK high street store Russell & Bromley, which sells the American Keds range of machine-washable ladies' casuals, reports brisk sales.

Once purchased, Satra recommends that machine-washable leather shoes be treated like delicate fabrics. They should be washed at 40°C and be stuffed with tissue paper to help retain shape. And, Satra warns, they should not be tumble-dried – or ironed.

PEOPLE

Lord Mayor elected



Paul Newall, the institutional broker at Lehman Brothers whose City roots go back 35 years, has been elected as the next Lord Mayor of London.

The front-runner in a field of four, Newall will be admitted as Lord Mayor (subject only to tha Queen's approbation, he emphasises) and will take up residence in the newly-restored Mansion House on November 12.

Now 59, he was educated at Harrow and Magdalene College, Cambridge, before launching his career at Cazenove. He was seconded to Durlacher as one of the Stock Exchange's energetic "blue buttons" but rose to become economist. In the 1960s he moved to Wall Street, and became one of the few British members of the NYSE.

Though Newall is in purdah until November 13, he did offer this reflection on his election: "I ran and ran and ran and look where I've ended up – Lord Mayor of London."

Jean Wood to head Irish Life in UK

Irish Life, Ireland's largest life assurance, pensions and investment group, has appointed Jean Wood as chief executive of Irish Life UK on the retirement of Ralph Sepel.

She will also take on responsibility for Irish Life's operations in Europe outside Ireland, which was formerly handled from the Dublin HQ by John Edmonton; he departed last month to head the new operation of J. Rothschild International Assurance at the International Financial Services Centre in Dublin.

Wood is well known in the UK insurance industry having been managing director of the life insurance, pensions and unit trust company, Prolific Group, until it was bought for £82m from Hafnia, tha Danish insurance group, by Scottish Provident last year.

Scottish Provident gave Wood a senior position to integrate Prolific, but not on a long-term basis. She had helped build Prolific's strong reputation for investment management, indeed it had a portfolio of £1.15bn and £20m in cash when it was taken over.

Wood, 51, has worked most of her life in the life assurance business, starting out in the North American market – she spent ten years with Manulife; she later moved to Cyprus and on to the UK where she became the managing director.

She was apparently the personal choice of David Kingston, the group managing director, to replace Sepel and Edmonton. Her appointment is a significant departure for Irish Life, as she is the first woman to be appointed to a senior executive position.

Wood says her new job "will require a serious review of the UK operations which will consider options of acquisition or disposal. Thare are distinct possibilities of expansion elsewhere in Europe and I will be looking at those, but the immediate task will be to get the three existing branches of the (non-Irish European) business to deliver the goods."

Around 15 per cent of the group's premiums are derived from its UK subsidiary, but its market share is only around 0.5 per cent in the UK; Dublin analysts believe that either an acquisition with a retail distribution network for its life products needs to be made, or resources should be released to expand elsewhere, such as in Norway and France.

Adding up for BT

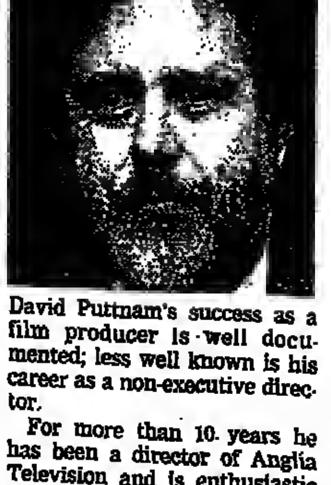
British Telecommunications has played safe in its choice of a new finance director, plumping for an accountant from inside the company.

Robert Brace, 43, moves to the top finance spot, with a seat on the BT board, from the post of group controller – roughly equivalent to chief accountant.

Brace joined BT four years ago as finance director of its UK division. He was recruited from Black & Decker, where he was vice president, business and finance. Before that, he was Unipart's finance director, having moved into industry from the then accountancy firm Peat Marwick Mitchell.

Brace's appointment follows the surprise departure of Barry Romeril, who this summer moved to the US to become finance director of Xerox Corporation.

Non-executive directors



David Puttnam's success as a film producer is well documented; less well known is his career as a non-executive director.

For more than 10 years he has been a director of Anglia Television and is enthusiastic about his seat on the board of another media company – Village Roadshow of Australia. Now he is to join the board of Chrysalis – the record and television company where Chris Wright is chairman.

The film producer says he has joined up because he was interested in learning about another part of the media world – records – and also perhaps helping Chrysalis on strategic alliances; Puttnam (left) and Wright already have a backer in common – the Japanese company Fujisankei. But Chrysalis shareholders will no doubt be reassured to note that Puttnam says he has absolutely no intention of taking the company into the film business.

■ Lord Kingsdown, having picked up a non-executive directorship at Hambros yesterday and at Glaxo earlier this month, has now rejoined the board of REDLAND, where he was a non-executive from 1972 until he became governor of the Bank of England in 1983.

■ Martin Towers, group finance director of Spring Ram, and Paul Weaver, company secretary, at its subsidiary STAG FURNITURE HOLDINGS.

Cinema/**Nigel Andrews**

Pastiche reaches new peaks

CAREFUL
Guy Maddin

LIKE WATER FOR CHOCOLATE (15)
Alfonso Arau

BLOOD IN BLOOD OUT (18)
Taylor Hackford

ASSASSIN OF THE TSAR (12)
Karen Shakhnazarov

An utterly wonderful Canadian film is on at the ICA in London and I am thinking: Can we arrange coach trips from all parts of Britain or Europe? Seldom does one stroll into the Mall's culture palace and find a gem like *Careful*. ICA movies are usually pieces of penitential avant-gardism, airdropped into Britain from planes plying between unheard-of movie festivals. But this film, written, directed, designed, photographed and edited by Guy Maddin – there is auteurship for you – is a joy, a feast, an astonishment.

Set in a never-never Bavarian village, it starts as a spoof-Teutonic "silent" movie embellished with cautionary voice-over: a wise old chorus figure warns of avalanches, crevasses and other Alpine perils ("Guard against any noise!", "A heedless heart can be lured to dangerous heights!"). Then it modulates into a mountain folk-melodrama plucked as if from the 1920s: the kind of movie that led on later to such joy-through-ozone pictures as Leni Riefenstahl's *The Blue Light* or *The White Hell Of Pitz Palu*.

Through an occluding swathe of grainy, mock-tinted photography plus artfully crackling soundtrack – ah sweet satiric retaliation for all those dawn-of-time Nordic art movies we once suffered through as youngsters! – we watch the adventures of a doomed, incestuous family living in the village of Tolzbad. Ma is lusted after by blond son Johann; elder son Franz spends his years in cobwebbed detention in the attic (offence unspecified); and young Grigorss, the only healthy and "normal" son, loves Klara who works in the village's all-female coalmine. (Candle-hats and soot-dusted Laura Ashley dresses a requirement.) There are also cut-out cardboard mountains, wrinkled sky-drops lit by bilious suns, and any number of fingelhorns, goats, ghosts, castles and avalanches.

To call this film "kitsch" would be like calling the Grand Canyon a faultline: true but inadequate. Mr Maddin, none of whose three previous micro-budget films I have seen, must have spent his whole childhood devouring early German cinema. But when pastiche reaches this degree of passionate empathy, it passes into a zone of unpolluted, debt-free genius. I would call *Careful* worthy of *Airplane!* did I not think it better than *Airplane!*. Better because it does not stop at derision; it goes on to make a new shape and poetry from the wreckage of its own lampooning.

Maddin makes us notice as never before how *beautiful* were the slap-up-a-mountain artifices of primitivist silent cinema. When his characters, stick-silhouetted against the backdrop sky like Lotte Reiniger figures, clamber down a couple of feet of papier-mache rock, they ask us to believe we are halfway up an Alp at the same time as saying "This *trompe l'oeil* would trompe absolutely no one."

And when the schoolmistress with the ludicrous German accent (played by writer-actress Jackie Burroughs of *A Winter Tan*) deals out her jackbooted moral lessons for the day to the towheaded Aryan youngsters – "Never Gamble With Life" she scratches on the blackboard – we giggle at the scene's goofiness as well as grinning at the heady oneiric cocktails Maddin makes from mixing his movie memories. (Besides all else, *Careful* is a mischievous primer on how the follies of Aryan supremacism were embryonic in those purity-obsessed 1920s mountain yarns).

Nothing is funnier than a comedy that seems to take itself seriously. *Careful* never holds out its hat for laughter. It guards an uproarious solemnity even in climaxes like the avalanche triggered by Grigorss to kill Klara's father. (*Dare* to laugh out loud as the first rumble causes a stuffed goat to topple down the fake mountainside). And as if the kitsch had not already told us a gay sensibility was at work, the film can be read as a dream-parable about closet sexuality: about the tragic absurdity of lives ruled by exaggerated caution. "The single bleat of a lamb" intones the Wise Old Narrator, "once caused an avalanche that uncovered an entire graveyard." *Careful* is, among much else, a poetic farce about social hypocrisy: about the need to tread softly, lest we stumble on the Real Truth about people and their needs and their emotions.

*

The rest of the movie week dwells among foothills. When you open a press handout on Monday morning and discover instructions on how to make hot chocolate and Quails in Rose Petal Sauce, what should you do? Assume a mistake at the printers? Check that your brain-centres are fully functioning? Or say to yourself, "Another day, another Mexican magical-realist movie."

Laura Esquivel's novel *Like Water For Chocolate* was a romance with recipes – this trend is spreading; is she related to Nora Ephron? – and has now become a movie with recipes. As directed by Alfonso Arau (actor, film-maker and Esquivel's husband) it is whimsical, too long and filmed in a dusty orange glow. But in America it has made much money, becoming the year's arthouse answer to *Jurassic Park*.

Reason: its slant on Magic Realism is shamelessly populist. Give the public a *pair of lovers kept apart by fate: mother*-tyrannised Tita (Lumi Cavazos) and handsome Pedro (Marco Leonardi), who weds Tita's sister when Tita is sentenced to spinsterdom by possessive Mama. Then, having kept them sundered through assorted births, deaths, revolutions and recipes, bang them together finally like two flintstones overdue for combustion.

The film has moments of charm and mischief. And I may try the recipes. But set an Esquivel yarn next to a Marquez yarn and you see what a vast instructive gap exists in Latin American fantasy-fiction between the wonderful and the merely whimsical.

There is more Hispanic flavouring in *Blood In Blood Out*, directed by Taylor "Officer And A Gentleman" Hackford. But this is Latinism Hollywood-style. It is about as convincing as those million-dollar stars' haciendas that dot the hills above *Tinseltown: here a whitewashed Spanish* arch, there a carefully placed Mexican maid; spread above them all, the exotic waves of red tiling...

Unlike houses, of course, movies walk, talk and make a lot of noise. This three-hour saga of life on the *barrio* – the slums and war-zones of east Los Angeles – wants to be the ultimate ethnic epic for L.A's fast-growing Chicano population. But around our three artfully differentiated "heroes" – hotheaded Miklo (Damian Chapa), artistic Cruz (Jesse Borrego), proud and macho Paco (Benjamin Bratt) – spins a plot whose circles diminish even as they accelerate.

For every family bust-up there are two more waiting; for every prison riot, expect three encores; and for every mutilation inflicted on our boys – stomach wound, broken back, amputated leg – be sure that exponentially amplified revenges will be *meted out to the baddies.*

"I wanted this film to have a reality factor that could not be questioned," says Taylor Hackford. But we know all about Hackford's reality factors. In addition to the Gere-Winger navy lark he directed *Against All Odds* and produced *La Bamba*: movies sharing *Blood In Blood Out*'s blend of melodrama, ear-bashing music and comic-book acting styles. This is the cinema of knee-jerk response-induction. Keep hitting the filmgoer in the right place and he will react in the right way. Failing that, he will at least feel too battered to leave the cinema.

Assassin Of The Tsar, an Anglo-Russian co-production, is better only in being shorter. Malcolm McDowell is the grizzled, whitehaired mental patient who thinks he killed Tsar Alexander II in 1881 and that he led the firing squad that later erased the Romanovs in 1918. As Lady Bracknell *might say, one paranoid delusion is reasonable:* two seems like self-indulgence. Dr Oleg Jankovsky attempts to cure him; and director Karen Shakhnazarov attempts, without success, to make the film feel like something more than an extended history exam.

Better than 'Airplane!' Stuffed goat, Gosia Dobrowolska and Brent Neale in Guy Maddin's 'Careful'

Alastair Muir

'Forever Plaid': Stan Chandler, David Engel, Larry Raben and Guy Stroman

Musical/**Malcolm Rutherford**

Songs of innocence

Plaid, to borrow from the Oxford English Dictionary, is "a long piece of *twilled woollen cloth, usually* having a chequered or tartan pattern, forming the outer article of the Highland costume". That is distinct from the Lowland plaid, which has a different pattern and is more commonly known as a maud. *Americans are* very fond of the Highland version.

In the delightful musical entertainment that has opened at the Apollo, plaid is pronounced to rhyme with glad.

Do not be misled by the bagpiper outside the theatre. *Forever Plaid* takes its name from a fictitious four guy harmony group of the kind that was immensely popular, especially in the US, in the 1950s. The story is that their kind of music was killed off by the arrival of the Beatles. Unlike Buddy Holly, Forever Plaid *didn't even have a plane crash*: they died in a road accident while still rehearsing. Now they come back from heaven.

And heaven in a way it is. These are fresh-faced American guys, with short hair and intelligent looks. It is about as far from *Grease* or *Hair* as a musical can get. When not wearing plaid, they tend to wear elegant whits dinner jackets: sometimes a mixture of the two. It is not hard to imagine them in high society, whether the movie or the real thing.

There is a certain amount of dialogue and knock-about. For the most part, however, they simply sing the 1950s songs of innocence in their harmonised style. At one stage,they adapt the Beatles' "She Loves Me", and you know that can't be bad. They have a wonderful time with "Lady of Spain", bring in the audience when it comes to the mambo and show their more emotional range in their version of "Cry".

Some will settle simply for the sheer nostalgic pleasure of their arrangements of "Three Coins in the Fountain" and "Catch a Falling Star", though they can have deeper voices when they want to, as in "Sixteen Tons".

Plaid lasts for less than two hours without an interval, is directed hy Stuart Ross, and has a *splendid pianist in James Compton. Here is a show* that you cannot fail to enjoy.

Apollo Theatre (071) 494 5070

Ballet/**Clement Crisp**

Oddball 'Cinderella'

We can forget the pumpkin and the mice. And the Fairy Godmother. We can, indeed, forget any earlier *Cinderellas*: Christopher Gable's new staging for his Northern Ballet Theatre is an exercise in de-mystification, decorated with Freudian hang-ups. The production, with design by Tim Hatley and a new score by Philip Feeney, had its first performance on Tuesday night in Sheffield's prettily refurbished Lyceum Theatre. Gable, with Rachel Lopez de la Nieta as "choreographic assistant", has opted for the heavily dramatic – not to say melodramatic – manner he has sought to give to many of the stagings offered by NBT, of which troupe he is director.

So, in the first act, we see the deaths of Cinderella's brother and mother during a Ruritanian apple-harvest, events whose dramatic impact is somewhat mitigated by tha fact that the dear departed haunt the rest of the action as singularly busy ghosts. The hrother occupies himself doing Cinders' housework; the mother acts as a spectral modiste, producing frocks from The Beyond. Stepmother and Stepsisters are the traditionally nasty lot, ready to inflict punishment, to tear dresses and passions to tatters, and to brand our heroine with a poker. That the stepmother eventually chops off one daughter's toes so that the shoe shall fit, is by the way.

Cinderella's father takes to the bottle, and during a waltz makes a pass at his daughter. This, unsurprisingly, freezes her emotions – it didn't do much for mine, either – and when the Prince becomes attentive at the last of the action's three big dances (Gable has seriously over-balled the tale) Cinderella is less than enraptured. But, although now seen in vest and braces, the Prince wins the waif, and a flock of obliging ravens peck out the eyes of the stepmother and her hrood.

Nearly three hours are passed in the company of this anxious affair. Gable's policy for NBT is much concerned with the staging of full-length dance spectacles, in which dance seems the weaker partner. In an earlier *Romeo and Juliet*, dramatic vivacity was taken to almost hysterical lengths. The company's revision of *Swan Lake* was manic. The positive benefits of Gable's style were, though, clear to see in the recent *Christmas Carol*, where Dickens' strong plotting, as well as his sentimentality, provided an ideal armature for a production nearer music-theatre than dance.

In each of these, a recognisable title was a significant factor in attracting an audience. This *Cinderella* will not, I hazard, alarm NBT's faithful, though it may take ballet-lovers, gently reared on Ashton or on Russian versions – where the classic dance is dominant – by surprise. Philip Feeney's music is eclectic, veering from the abrasive to the sweet, but interestingly scored. Tim Hatley's basic set is a dimly reflecting box, in which panels rise and fall to allow changes of location. It is clever, somewhat claustrophobic, a bit grim. Costuming I found uniformly unattractive and, like the staging, heavy-handed. What Gable and Miss Lopez de la Nieta propose as choreography is what one might expect: dramatic structure is more deftly done than steps, and, curiously, the characterisations look sketchy. Jayne Regan has attractive, delicate moments as the heroine; other roles are more like received ideas than personalities.

The staging is over-run with birds: one flock obligingly pick rice from the kitchen ashes; cockerels fight as cabaret at a ball; doves behave dove-ishly and ravens are retributive. The sum effect is very odd: hut the piece itself is an oddity in its resistance to the idea (which Gable knows well from dancing in such works as *The Invitation* or *Romeo and Juliet* or *The Two Pigeons*) of classic choreography as an art able to express the most intense emotion. And as a presentation of an enduring myth, which is tha sub-text to the staging, this *Cinderella* lacks that mysterious joy which we know it can have in dance and the theatre.

Northern Ballet Theatre's regional tour lasts until January 1994 and is sponsored by British Telecom

Concert/**Max Loppert**

Lindsays and Friends

The Lindsay Quartet's "French Connection" Festival at the Wigmore Hall, now just past the halfway mark, testifies not only to the strength of the *entente cordiale* but also to the continuing vitality of the chamber-musical medium itself.

The bill of fare places side by side French and British masterworks and new works: Ravel's single String Quartet and Geoffrey Poole's Second Quartet, say, or – in Tuesday's recital by the excellent piano-quartet group Domus – the Fauré C minor Piano Quartet and John Casken's 1990 Piano Quartet (first London performance). In oo didactic *fashion, and also because these* players have themselves sustained a policy of commissioning new works for their repertory, the nightly mixtures make their point with pleasing, salient simplicity.

Tha Domus programme was a particularly winning one. Casken, whose leading position among British composers of middle years is emphasised by each new work of his that appears, wrote the Piano Quartet for Domus's tenth birthday season. It is "real" chamber music – that is to say, its musical ideas seem irremovahle from the intimate performing circumstances that hrought them into existence, aod there *is* a "conversational" distinctness in their exchange that characterises both the ensemble and each invidual strand.

The idiom is highly personal – with pianistic arabesques in tiny, chattery flourishes against static, consonant strings, and sudden group stirrings into dance-like rhythmic energy – yet always strictly logical, and beautifully clear in the halance of parts. The Domus violinist, Krysia Osostowicz, told us in advance that Casken's quartet was "the most difficult work we've playad", but from the performance it seemed clear that the *technical* challenges had *been* comprehensively and exhilaratingly met.

The previous evening the Lindsay Quartet had devoted the first half of their recital to the second Loodoo performance of Michael Tippett's most recent chamber-music opus – the Fifth Quartet, a quirky, loose-limbed, sometimes huoyantly appealing compendium of late-Tippettian sounds and ideas – and then the London premiere of the Poole Second. A Manchester don who has spent fruitful time in Africa mastering drumming and other instrumental techniques, the composer has fouod atmospheric, enjoyable ways of re-creating and developing them withio the string-quartet format.

Like the South African-born Kevin Volans in his string-quartet "hit" of the *1980s, White Man Sleeps – if perhaps* with less "native" economy – Poole sends out a compliment to the strength and wholeness of African music which is elegantly returned.

INTERNATIONAL
ARTS GUIDE

■ ATHENS

Megaron Concert Hall The new season opens on Oct 8 and 9 with a programma by La Camerata featuring baroqus fluta concertos and Benda's melodrama Ariadne auf Naxos. Oct 11, 13, 15: Idomeneo ataged by Michael Hampe and conducted by Ivan Fischer, *with Keith Lewis in the title role* (01-728 2333/01-722 5511)

■ BARCELONA

The opera season at Gran Teatre del Liceu opens on Sat with the first of eight performances of Willy Decker's 1991 Cologna production of Der fliegende Holländer, conducted by Uwe Mund and designed by Wolfgang Gussmann. There are alternating casts including Franz Grundheber and Wolfgang Schöne as the Dutchman and Lisbeth Balslev as Senta (412 3532)

■ BOLOGNA

Teatro Communale Tomorrow and Sat: Garcia Navarro conducts orchestral works by Schumann and Falla, with cello soloist Mischa Maisky. Next week's concerts are conducted by Pinchas Steinberg. The opera season opens on Nov 27 with Puccini'a Trittico (Biglietteria, Ente Autonomo Teatro Communala di Bologna, Largo Respighi 1, 40126 Bologna. No telephone bookings accepted. For information, call 051-529999)

■ PRAGUE

FESTIVAL OF MUSIC
Prague's autumn music festival, now in its final week, is built around tha distinguished Czech violinist Josef Suk, who is soloist with the Stuttgart Chamber Orchestra at the Smetana Hall tomorrow and gives a recital in Knight's Hall on Mon. Tonight's concert in the Rudolfinum is given by Israel Chamber Orchestra directed by Shlomo Mintz. Trio di Milano plays piano trios by Schubert and Dvorak at the Rudolfinum on Sat, and Renato Bruson gives a song recital in the Smetana Hall on Sun. Tha final concert next Tues is a Mozart programme featuring the Camerata Academica conducted by Sandor Vegh (Bohemia Ticket International 02-228738)

OTHER EVENTS
Mon at Dvorak Hall: Skampov Quartet plays string quartets by Mozart, Bartok and Beethoven (02-286 0111). Naxt Wed in Smetana Hall: Tadeusz Strugala conducts Prague Symphony Orchestra in works by Falla, Prokofiev and Ravel, with piano soloist Barbara Moser (02-232 2501). Repertory at Prague State Opera includes Swan Lake, Rigoletto, Un ballo in maschera, Tosca and Jenufa (02-265353)

■ BRATISLAVA

The annual music festival in the Slovak capital opens tomorrow with a concert by La Chapelle Royale in St Martin'a Cathedral, conducted by Philippe Herreweghe and featuring sacred works by Stravinsky and Bruckner. Bohumil Gregor conducts tha Prague National Theatre production in The Bartered Bride on Sat and Sun at tha Slovak National Theatre. Also on Sat, Jan Latham-König conducts the Slovak Philharmonic Orchestra in works by Mozart and Mahler. Other visitors to the festival include the Stuttgart Chamber Orchestra, tha Carmina Quartet, the Kosice State Philharmonic and Pragua Symphony Orchestras. Repertory at the Slovak National Theatre includes L'incoronaziona di Poppea, Don Pasquale, Lucia di Lammermoor and Yevgeny Onegin. The final concert on Oct 13 is given by tha Slovak Philharmonic Orchestra conducted by Ondrej Lenard, and features Tchaikovsky's Violin Concerto and a symphonic suite by Eugen Suchon, ths pioneering Slovak composer (07-330378)

■ LONDON

THEATRE
● David Hare Trilogy: a three-part examination of major British institutions, presented in the Olivier Theatre by a single company of actors directed by Richard Eyre. Tha Absence of War, Murmuring Judges and Racing Demon can be seen individually - or all on tha same day on Oct 2, 9, 23, 30 and Nov 13, 20 (National 071-928 2252)
● Arcadia: Tom Stoppard's new play, a multi-layered comedy starring Felicity Kendal. Trevor Nunn directs this production in the Lyttelton Theatre (National 071-928 2252)
● Moonlight: Harold Pinter'a first full-length play for 15 years, starring Ian Holm, Anna Massey, Edward de Souza and Douglas Hodga. Till Oct 30 (Almeids 071-359 4404)
● Carousel: West End transfer of Nicholas Hytner's award-winning National Theatre production of the Rodgers and Hammerstein musical (Shaftesbury 071-379 5399)
● Hysteria: Terry Johnson's amusing new play about a visit to London in 1939 of an old and doddery Sigmund Freud. Phyllida Lloyd directs (Royal Court 071-730 1745)
● Oleanna: David Suchet and Lia Williams in David Mamet's controversial new play, directed by Harold Pinter (Duke of York's 071-836 5122)
● For ticket information about West End shows, phons Theatreline from anywhere in UK: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962. Most London theatres are closed on Sunday.

OPERA/DANCE
Covent Garden Ths Royal Opera's repertory consists of L'Italiana in Algeri (with Marilyn Horne and Ruggero Raimondi) and Madama Butterfly (with Diana Soviero and Arthur Davies). Both productions are conducted by Carlo Rizzi. Oct 8: Bernard Haitink conducts first night of Graham Vick's new production of Dis Meistersinger von Nürnberg, with John Tomlinson, Nancy Gustafson, Thomas Allen and Gösta Winbargh (071-240 1066)
Coliseum ENO repertory for tha next two weeks consists of Tha Rape of Lucretia (with Jean Rigby) and s new production of La boheme, staged by Steven Pimlott and conducted by Sian Edwards, with Rosalind Sutherland taking over from Roberta Alexander as Mimi from Saturday's performanca. Next month's revivals include Il barbiere di Siviglia and Le nozze di Figaro (071-836 3161)
Sadler's Wells Glyndebourne Touring Opera gives the British premiere on Mon of Siegfried Matthus' Cornet Christoph Rilke's Song of Love and Death. Repertory also includes Don Giovanni and La clemenza di Tito. The season ends on Oct 9 (071-278 8916)

CONCERTS
Barbican Tonight: Michael Tilson Thomas conducts LSO in works by Oliver Knussen, Mozart and Tchaikovsky, with the Labeque Sisters. Tomorrow: Libor Pesek conducts Czech Philharmonic Orchestra in Dvorak and Mahler, with mezzo soloist Dagmar Peckova. Sun afternoon: Stephen Kovacevich gives first of three piano recitals (tha others are on Oct 10 and 20). Sun evening: Pierre Boulez conducts LSO in an all-Messiaen programma (first of a series of four Messiaen commemorative concerts). Mon: Simon Rattle conducts CBSO in Stravinsky, Rakhmaninov and Szymanowski. Tues: Colin Davis conducts ECO in Mozart. Wed: Richard Hickox conducts Mozart's Requiem (071-638 8891)
South Bank Centre Tonight: Franz Welser-Möst conducts LPO in Bruckner's Eighth Symphony. Tomorrow: Matthias Bamert conducts LPO in works by Rossini, Frank Martin and Prokofiev. Tomorrow (QEH): Glinka State Choir of St Petersburg. Sat: Jiri Belohlavek conducts Czech Philharmonic Orchestra in Smetans'a Ma Vlast. Sun: Andrew Davis conducts BBCSO in Stravinsky and Strauss, with violin soloist Kyoko Takezawa. Mon: Yehudi Manuhin conducts RPO in Schubert, Mozart and Elgar, with soprano soloist Amanda Roocroft. Tues: Libor Pesek conducts RLPO in Smetans, Suk, Dvorak and Janacek (071-928 8800)

■ FLORENCE

Teatro Communala Tomorrow, Sat, Sun afternoon: Elgar Howarth conducts orchestral works by Perezzani, Ravel, Liebermann, Bach and Stravinsky, with piano soloist Gabriel Tacchino. Next Wed: Murray Perahia piano recital (055-211158)

■ MADRID

Teatro Lirico La Zarzuela José Serrano's zarzuela La Canción del Olvido, stagad by Pier Luigi Pizzi, runs daily except Mon till Oct 10. Jonathan Miller's ENO production of Rigoletto is given a single performance on Oct 18. Martha Graham Dance Company heads a two-month dance season, starting on Oct 27 (01-429 8225)

ARTS GUIDE
Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Nethsrlends, Switzerland, Chicago, Wsshington.
Wednesday: France, Germany, Scandinavia.
Thursday: Itely, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Thursday Sky Nsws: Finsncial Times Rsports 2030; 0130
Friday Super Chsnnel: European Business Today 0730; 2230
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Saturday Super Channel: Financial Timaa Rsports 0930
Sky Nsws: West of Moscow 1130; 2230
Sunday Supar Channsl: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: Wast of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

The soap that won't wash

BOOK REVIEW

SOAP OPERA. THE INSIDE STORY OF PROCTER & GAMBLE
By Alecia Swasy
Times Books, $24, 288 pages

Procter & Gamble has a dirty and not so little secret, says Alecia Swasy: the US consumer products giant, which cultivates the image of enlightened employer and housewife's friend, is in reality a paranoid, rather sinister institution, obsessed by secrecy and control, which spies on its employees and bullies anyone who stands in its way.

That, at any rate, is the picture painted by this Wall Street Journal reporter in one of the most sensational yet deeply flawed business books published in the US this year.

It is the product of interviews Swasy conducted with more than 300 current and former P&G employees – which is in itself no mean achievement, given the company's well-deserved reputation for secrecy.

However, Swasy is hardly a detached observer. In 1991, when covering P&G for the Journal, she infuriated Ed Artzt, its chairman, by revealing strategy moves under discussion inside the company.

His response was draconian. He enlisted the help of the police in Cincinnati, P&G's midwestern home city, who combed through millions of business and home telephone records in an attempt to track down the P&G employee leaking information to the Journal.

The move backfired badly. P&G, accused of abuse of power and invasion of privacy, faced a torrent of bad publicity. Mr Artzt was forced to back down and acknowledge he had made an "error of judgment".

The incident reveals an ugly side to a company long regarded as a good US corporate citizen, which regularly appears on lists of the "most admired" companies in the US, or "best to work for".

Swasy asserts, however, that her brush with P&G is symptomatic of an inbred and increasingly oppressive culture which strips employees of privacy and independent thinking. P&G is "a cross between the marines and the Mormon church".

She portrays a company so worried about leaks of sensitive trading data that its large security staff – manned by former employees of the FBI, CIA and military police – monitors internal staff phone calls and routinely rides aircraft between Cincinnati, New York and Chicago to prevent employees and advertising agency representatives talking shop in flight. "People can be fired for leaving a company phone book on their desk."

The atmosphere, she says, has become more oppressive under Artzt, who took over as chairman in 1990 and is known within the company as the "Prince of Darkness" because of his abrasive manner and impatience with those who disagree with his ideas. To many people, he personifies "what's wrong with P&G these days: success at any price and too little attention to people".

Swasy goes on to pillory P&G's research and development record (too few new products), its advertising (conservative and sexist) and sales methods (bullying, but with diminishing effect as large retailers such as discount chain Wal-Mart usurp the power of consumer goods manufacturers).

She also revisits two controversies from the 1980s which reflect badly on the company: its marketing of the Rely tampon – which was withdrawn amid allegations that it was linked to the potentially fatal toxic shock syndrome – and the pollution of a Florida river by a P&G pulp mill.

P&G's aversion to publicity and market power make it an excellent subject for investigation. Despite its lily-white public persona, questionable deeds have doubtless been committed in the cause of its bottom line.

Unfortunately, Swasy has wasted this opportunity by writing an account so one-sided and unfair, so full of vague generalities and argumentative non sequiturs, that she undermines the credibility of her entire book.

To take just one example, she dwells at length on the very real competition facing P&G in the US and some third world markets, while brushing aside the fright it gave Unilever with a remarkable push into Europe in the 1980s.

There may be considerable truth to her suggestion that Artzt's management style – described as one of "fear and intimidation" – is undermining company morale and prompting a brain drain among senior managers. The trouble is, her judgment cannot be trusted.

And it is equally true – as Swasy grudgingly acknowledges in a throwaway sentence or two – that P&G has a very strong profits record and that its bureaucracy may have needed at least some of the strong medicine delivered by Artzt.

Yet despite the persistent grinding of axes, this book does contain a wealth of fascinating detail about the inner workings of P&G. There is, for example, a vivid portrait of the young Artzt, consumed with ambition, conducting his own informal national store check (P&G's first) as he drove his family across the US to his first headquarters job.

There is also a valuable account of how P&G improved its long-time adversarial relationship with the increasingly powerful Wal-Mart, locating a dedicated sales team close to the company's Arkansas headquarters and linking the two groups by computer.

As Swasy points out, Wal-Mart's annual sales revenues could be $100bn by the turn of the century, more than double those of P&G. Together with other giant retailers it poses a serious threat to the profit margins of all consumer products manufacturers.

Yet despite these insights, the primary impression left by this book is of someone hunting through a family's dirty laundry basket, intent on presenting every grubby garment stain to the world. The search can tell you something about a household's habits, but it hardly gives a balanced portrait.

Martin Dickson

Last weekend I made my pilgrimage to the solid bourgeois house in which Karl Marx was born. This was in the former Roman garrison town of Trier, on the River Mosel, near where Germany, France and Luxembourg all meet and, indeed, a stone's throw from the village of Schengen, where ministers from five EC countries agreed to dismantle all frontier formalities.

Apart from the lady who took the entrance money, there was not a single German to be seen in Karl Marx Haus, and hardly any Europeans. The visitors were mainly from the third world, predominantly Africa. They mostly treated their visit as a tourist outing, grinning and taking photographs. A more serious-looking young man, reading a Turkish newspaper, turned out to be looking at the sports pages, while drinking a bottle of coke.

The visit put me in the right frame of mind to read the Annual Economic Outlook of the European Bank for Reconstruction and Development on the problems faced by countries "in transition", which are trying to escape from the Soviet variety of Marxism and restore capitalism.

Forget the recent trouble at the top of the EBRD. The report, issued by the EBRD's chief economist John Flemming, is a thorough analysis of the economics of transition. It should remain a permanent reference for its treatment of property rights as a condition – in addition to markets, privatisation and macroeconomic stability – of a workable capitalist economy. And it is not as far from the rings of security police around the Russian parliament as it might seem. For the anti-Yeltsin opposition is basically trying to stop a transformation in property rights which would finally undermine its power base.

Just as there are no special economic rules prevailing within 30 miles of Cambridge, there are no separate ones for the former communist countries either. Some of their most acute problems are familiar in the west under the dreadful name of "corporate governance". No ideal method has been found anywhere of performing the proprietorial role of monitoring the activities of, and if necessary replacing, professional managers.

But in the transitional economies, property rights are also threatened by "ill definition, continuing bureaucratic encroachment and criminality".

Meanwhile, the birth pangs of capitalism are proving every bit as painful as Marx expected those of socialism to be. Anyone who believes that there has been a severe recession in the west should look at the EBRD best guess for output in Russia, which fell by a cumulative 20 per cent between 1989 and 1992. In central Europe, the best performers were Hungary and Poland, where output fell by "only" 13½ per cent.

The slump had its origins in the final years of the communist regime. Output growth came to an end in the middle 1980s. The pains of the subsequent restructuring included a sharp cutback in military expenditure, which was mostly in remote areas with little alternative employment. Just as important has been "the enormous anxiety over the prospective returns to investment created by the uncertainties of the transition towards markets and property rights".

There have also been external forces. The decline in economic activity in the former Soviet Union, and the ensuing fall in its demand for imports, may have accounted for the entire output decline in Hungary and most of the output decline in the Czech Republic. In addition, German unification resulted in a massive decline of exports to the former German Democratic Republic.

The Russian shift to charging world prices for oil and other resources has been likened in its incidence to a third oil price shock. On top of everything else there came recession in the west, which has made investors there cautious about placing funds anywhere – except perhaps in the dynamic Asian economies.

The scale of the post-communist recession may be overstated, because of the under-recording of the output of new small-scale private enterprise. The EBRD expects positive growth everywhere outside the war zones within the next two or three years. Long-term forecasters suggest that it might take more than 35 years to catch up with per capita levels in the OECD. So much the worse for the forecasters. The EBRD mentions that none of them is using the successes achieved in a number of Asian countries "to identify the paths the reforming countries of eastern Europe might be following". There is also the throw-away remark: "Provided that eastern Europe can avoid building a tax and transfer system providing employed and unemployed workers with incentives to risk prolonged joblessness, such as has developed in western Europe, the normal unemployment rate in eastern Europe might turn out to be less."

Comparisons across Europe should not all be one way. I hope that somebody will draw the attention of the UK chancellor to one apparently innocuous section, which estimates that the marginal tax rate on labour incomes in the UK is *already* around 65 per cent, taking into account national insurance contributions and VAT, "slightly higher than is typical in eastern Europe". The US is exceptional in being below 50 per cent – that is, unless Congress approves the Clinton budget package.

On the other hand the post-communist countries stand alone in their rates of tax on income from capital, which are estimated at nearly 98 per cent for Russia and around 85 per cent even for Poland and the Czech Republic. These astronomical rates reflect the interaction of the tax system with high inflation. Until they are tackled, privatisation is bound to be at knockdown prices and domestic investors will continue to hold funds abroad or simply hoard US dollars.

According to the EBRD: "The fate of economic reforms in eastern Europe will depend on how successful the reforming countries will become in penetrating western markets." Trade with the west is now as high or higher as a proportion of the total as it was in 1928. Import protection in the Czech and Slovak republics and Poland is now lower and more uniform than in most OECD countries.

Central European trade with the European Community is regulated by Association Agreements, which came into force in March 1992 and aim to establish a free trade area within 10 years, with a phased timetable in which the EC will move faster. Unfortunately these commitments do not completely apply to sensitive sectors accounting for 30 to 40 per cent of the trade of Hungary, Poland and the Czech Republic.

The biggest restrictions are in agriculture, where, for instance, imports of meat into the EC were recently subject to a levy of over 100 per cent. Some relief is promised in textiles and clothing; but these are dependent on the successful conclusion of the Gatt round. In principle, steel quotas have come to an end, but there are fears of informal pressure by west European industries against price competition here and in chemicals.

An example of EC behaviour was the recent ban on meat and dairy products because of the supposed danger of foot and mouth disease. The Czech foreign minister pointed out that there has been no known case of this disease in his country for almost 20 years. (A Hungarian colleague said it must have been "foot in mouth disease" instead.)

In view of some of the horrifying estimates of the cost of extending to central and eastern Europe farm supports and regional assistance, the EBRD authors suggest a new form of membership that would not automatically offer all the "benefits" of EC cohesion policies, such as a social charter and the regional funds. Maybe other countries will eventually ask for such opt-outs as well, leaving Mr Delors to enforce his rules within 30 miles of Brussels – which does not extend as far as Trier.

ECONOMIC VIEWPOINT

The painful road to capitalism

By Samuel Brittan

% of trade with E Europe and with market economies (latter in brackets)

	Bulgaria	Czechoslovakia	Hungary	Poland	Romania
1928	16.4 (94.9)	19.8 (95.2)	37.3 (30.9)	14.2 (82.7)	24.0 (54.9)
1989	54.1 (27.5)	47.2 (37.6)	40.1 (46.2)	39.4 (44.9)	31.1 (32.5)
1992	33.1 (41.0)	25.4 (63.2)	21.3 (68.9)	15.9 (72.1)	19.7 (51.8)
Normal pattern	17.8 (62.5)	21.5 (57.5)	30.2 (47.5)	19.1 (60.4)	23.4 (57.2)

Source: EBRD

Birthplace of Karl Marx in Trier: now near the centre of the EC

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Real reason behind the 'miracle' in east Asia

From Dr Michael Hobday.

Sir, I was disappointed to read your coverage of the World Bank report, The East Asian Miracle ("State role in growth of east Asian economies questioned" and "The Asian miracle that wasn't", September 27). It gave too much credibility to the sterile old "was it the market/was it the state?" debate – and the Bank's (predictable) finding that it was the market, not state intervention, which explains east Asia's development.

Anyone with a knowledge of east Asian industry knows that it is the ability, speed and dynamism of Asia's *companies* which explains the miracle. It is companies which export, earn foreign exchange, acquire technology, generate wealth and raise productivity – not governments, and not abstract markets. Without these companies' skilful, audacious and deliberate strategies (in many cases in co-operation with governments) the miracle could not have occurred.

If one-tenth of the resources dedicated to the "market vs state" debate were put into learning about the strategies of Asia's late-comers we would now have useful advice for Latin America, eastern Europe and our own companies which are trying to compete with Asia's new-comers.

Michael Hobday,
senior fellow,
Science Policy Research Unit,
University of Sussex,
Falmer, Brighton BN1 9RF

MPs should lead on pay freezes

From Mr Frank Field MP.

Sir, You report Gordon Brown's statement to the Labour party conference on full employment, and this is to be welcomed wholeheartedly ("Brown pledges Labour drive for full employment"; September 28). A commitment to full employment will give new direction to the party's thinking and campaigning. What is now required is the detailed work on a raft of policies necessary to any significant expansion in the numbers in work. This is a debate in which Labour should attempt to set the agenda, but it will involve some hard choices.

You also report Gordon Brown as emphasising the importance of growth in the economy. Of course this is crucial, but growth by itself will not necessarily lead to an expansion in jobs. Other countries, such as Spain, have shown that a doubling in national income can result in an actual decrease in the numbers in work. Crucial to the regaining of full employment is people's attitudes to how the new wealth should be shared.

The government asserts that there will be no automatic pay increases in the public sector in the coming year. But, as David Goodhart reported on September 18 ("Keeping the lid on pay rises"), a freeze on recruitment in the public sector would mean "losing" half a million new jobs. By freezing recruitment, workers could thereby gain a 5 per cent wage increase and appear to keep within the government's overall nil increase in the pay bill.

Last year workers at Sheffield City Council were faced with the hard choice of a pay increase and sending some of their colleagues on to the dole queue; or accepting a wage freeze and maintaining the existing workforce. Their choice of the latter was brave and principled.

If Labour is serious about setting the debata for full employment, this year's public sector pay round offers a major opportunity. Some will say it will need considerable political courage to spell out the case for a wage freeze in order to safeguard those half a million unfilled jobs. But a clear lead from the Labour party on the need to offer a hand-up to half a million people in the dole queue would win widespread support in the public sector.

Labour MPs could give a lead to public sector workers in respect of their own pay here in Parliament. MPs and cabinet ministers are expected to gain an automatic increase in ths coming year. Labour should put a motion down suggesting a freeze on MPs' and cabinet ministers' pay, providing that the monies foregone are earmarked for job creation programmes. In this way the public would see there was a direct link in the short term between limiting pay increases and creating new jobs.

Sharing out existing pay packets with those in the dole queues is not itseif a panacea to full employment. But it would be a start and it would signal a new beginning.

Frank Field,
House of Commons,
Westminster,
London SW1A 0AA

Corporate backing vital for ENO

From Mr John Nickson.

Sir, In your management page feature, "Time to sing a new song" (September 23) on ENO's new team, you say the company "recognises that it will never get mucb out of the corporate entertainment market". May I alaborate on this point. Although the Coliseum is not a corporate house in the sense that all the best seats are monopolised by business people, ENO enjoys the support of 100 companies and trusts which contribute more tban £1m a year to tha company while taking advantage of the theatre's many private entertaining rooms.

Sponsorship also plays a vital role – more than half of our productions have heen sponsored in 1993-94 so far. Indeed, a recent Arts Council appraisal says ENO's performance far exceeds the average growth in arts sponsorship during the past five years.

Lucy Kellaway rightly says that our success in attracting audiences will be determined by tha operas we produce and, citing the critics, questions whether ENO's new production of *La Bohème* (sponsored by the IIR Group) can be the equivalent of a *Jurassic Park*. The public has answered resoundingly with attendances averaging more than 90 per cent.

John Nickson,
director, corporate affairs,
English National Opera,
London Coliseum,
St Martin's Lane,
London WC2N 4ES

Small companies the victims of banks changing basis of lending

From Mr Michael Pattison.

Sir, Your report on financing small business emphasises the problem of adjustment to new circumstances ("Entrepreneurs complain of bank pains", September 27). Research conducted last year for the RICS by the Centre for Economics and Business Research underlined the powerful link between bank funding of industry and the state of property values. The findings in Professor McWilliams' paper indicated this relationship made money too readily available in good times and too scarce in bad times – banking conventions tended to cause overreaction at the top and bottom points of the cycle to the severe disadvantage of the British economy. On the basis of past patterns, the report suggested that a 10 per cent decline in commsrcial property values over a two-year period would reduce the flow of funds from banks to industry by some £9.7bn over the same period with a six months' lag. The issues are clearly strongest for small businesses.

The banks tell us that they now wish to change the basis of their lending. In the long run, this may be desirable, even if it means that the price of capital to small businesses will tend to rise. However, the parallel experience in North America is worrying. It suggests that when the banking sector seeks to change the basis of lending to small business, the result tends to hs that the sector stops lending to small business instead of finding a different basis for such lending. Let us hope that the Bank of England finds more effective solutions.

Michael Pattison,
chief executive,
Royal Institution of Chartered Surveyors,
12 Great George Street,
Parliament Square,
London SW1P 3AD

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Thursday September 30 1993

Through train for Hong Kong

OCTOBER looks like being a blustery month for the people of Hong Kong. Tomorrow Mr Douglas Hurd, Britain's foreign secretary, meets Mr Qian Qichen, his Chinese counterpart, in New York for the latest stage of talks about the colony's political future. On October 6, Hong Kong's governor Chris Patten opens the new session of the Legislative Council (LegCo), the colony's lawmaking body. There are hints that Mr Patten may be considering a dash for limited democracy without Beijing's agreement ahead of the Chinese takeover in 1997.

Recent events have done nothing to diminish anxiety in the colony that China and Britain will fail to agree. To Mr Patten's high-profile populism has been added Mr Hurd's attack on Beijing's claim to the Olympics. Beijing's response last week was to publish Deng Xiaoping's 1982 *démarche* warning that China might take early control of Hong Kong in the event of "disturbances".

Perhaps this impasse was inevitable. Mr Patten feels that he is locked into a timetable and that Britain has made significant concessions without response from Beijing. He must give soon an indication of his plans for the extension of democracy in the colony. There must be a bill in LegCo before the year-end to prepare for municipal elections next year. LegCo is, however, divided between those who fear Mr Patten may dump democracy and those who chiefly want a quiet life with Beijing. Mr Patten thus finds ranged against him that part of the colony's Chinese population which regards reunification as desirable on almost any terms and a business community which believes more or less unanimously that China's economic and political progress guarantees a satisfactory future for Hong Kong. Many feel Britain should accept that there is no merit in forcing Beijing to swallow western-style aspirations which London itself thought fit to visit on the colony only as an afterthought.

Political institutions

Mr Patten has a case when he argues that Hong Kong's political institutions have nurtured excellent conditions for business and prosperity. Hong Kong, more than most other Asian centres, offers sound legal institutions, an honest bureaucracy and a free press. But the governor's best defence against his critics is that they are not necessarily best placed to judge the people's interests. Opinion polls continue to show majority support for Mr Patten's approach, although behind this sentiment may lie yet another bargaining position: Hong Kong people undoubtedly want as much democracy as they can get, but they also crave a peaceful transition to Chinese control. The governor will need to attend with the utmost sensitivity to any shift in the popular mood and to avoid overplaying his hand.

Board democracy

It is quite possible for example that in next year's municipal elections, even if conducted on a broader franchise, the pro-democracy United Democrats will do less well than in the last LegCo poll. They are unable to field enough candidates to win a majority, and may encounter a sense that many Hong Kong people are more concerned about services than about district board democracy. More fundamentally, as 1997 approaches the Hong Kong people may well feel disinclined to "vote against China", knowing where their destiny lies. What they most want is a political "through train" – a pattern of enfranchisement for LegCo with which Beijing can live after 1997 in the context of its "one country, two systems" formula.

It remains overwhelmingly in the interests of Britain, Hong Kong and China that this through train runs on schedule, underpinning Hong Kong as a financial and commercial centre whose strength has already proved of inestimable value to China's modernisation. Common sense suggests that a deal ought to be inescapable: China needs a vibrant and confident Hong Hong every bit as much now to assist in the difficult task of engineering a "soft landing" for its economy; Britain and Hong Kong need a smooth transition which takes reasonable account of popular aspirations. Mr Patten still has time to persuade the Chinese that it would be in their interests to take over a Hong Kong with a constitution broadly acceptable to its own people, but persuade them be ultimately must.

Single market, phase two

THE SINGLE market's launch on January 1 stands out as the European Community's main success in recent years, contrasting sharply with the trials over monetary union. The programme to remove barriers to goods, services and capital has already knitted together the economies of the 12. In time, it should lead to higher growth rates and enhanced competitiveness. The Commission is now seeking to maintain the momentum, and earlier this week presented a draft "strategic programme" to the Council of Ministers, setting out three broad areas for future action.

First, better implementation of the original programme. Only half the single market directives have been implemented by all 12 countries. The Commission's main concerns are that people still face frontier controls, and governments have been slow to open up public procurement, which accounts for 15 per cent of EC economic activity. Mr Raniero Vanni d'Archirafi, internal market commissioner, is pursuing countries which fail to enforce directives through the European Court of Justice.

Second, filling in the gaps of the original programme. The biggest item in this category is direct taxation. The Commission argues that different corporation tax regimes, in particular, distort decisions over business location and co-ordination is therefore needed.

Frontier bottlenecks

Third, trans-European networks. Here the Commission's concern is that transport, energy and telecommunications networks are planned at national levels to serve national needs with the result that there are bottlenecks at frontiers. It wants national operators to overcome the problems of poor cross-border linkages by co-ordinating investment.

While the Commission's general idea of a new single market drive is good, its detailed proposals are mixed. Most welcome is the crack-down on governments which do not enforce directives. It is unfair for countries to enjoy access to markets in other states, while keeping their own markets closed.

Less satisfactory is the emphasis on tax "co-ordination", which seems to be a new way of saying harmonisation. It is not simply that there is little hope of persuading national governments to relinquish control over what they rightly regard as a core responsibility. Co-ordination could even undermine competitive forces in the single market. In so far as businesses are prepared to move location to take advantage of lower taxes, individual governments are given a competitive spur to keep their tax rates down.

Greatest profits

Instead of frittering away its energies on tax, the Commission should focus on liberalising sectors left out of the original single market programme. The priority should be to free up markets in energy, telecoms and postal services, which in most countries are state-owned monopolies.

It is no coincidence that there is a close correspondence between these sectors and those where networks are fragmented on national lines. National monopolies invest within their frontiers, while fighting tooth and nail to keep rivals out of their territories. Competitive private enterprise, by contrast, would have an incentive to *focus investment on* bottlenecks because that is where the greatest profits will be made.

Unfortunately, the Commission has not made the link between fragmented networks and monopolies. As a result, its main emphasis is on co-ordinating monopolies rather than abolishing them. While the Commission has made tentative moves towards liberalisation, there is no sense of urgency. Even in telecommunications, where progress is greatest, monopolies will remain at least until 1998. In energy and postal services, liberalisation appears to have ground to a halt.

Vested interests are so powerful that it will not be easy force open the monopolies. Attempts to press on with liberalisation will be countered by arguments that competition could lead to job losses. But the Commission should remember that inefficient monopolies impose costs on all other sectors of the economy, hampering their ability to compete in world markets and create new jobs. An assault on monopolies should therefore be the prime thrust in the next phase of its single market programme.

Fuel for a bumpy drive ahead

Fiat's financial package is designed to defend the group at a time of weak demand for cars, says Haig Simonian

The fanfare surrounding the launch earlier this month of Fiat's new model, the Punto, was unprecedented. Turin, the group's home town, was taken over by Fiat for lavish presentation parties stretching nearly two weeks.

Italy's largest private company had less to trumpet when it unveiled this week how it intends to provide the financial muscle and management skill to survive as a significant player in the competitive automotive business. Across Europe, total car sales fell by 16 per cent in the first eight months of this year, pushing all car makers into financial difficulties.

Fiat's strategy seems to be based on the principle that the best means of attacking the market is by defending itself; and the stock market's initial reaction has been cool. For the moment at least Fiat has shown that, unlike Renault and Volvo, it is not staking its fate on an international marriage.

Mr Giovanni Agnelli, chairman and head of the family, has reversed his oft repeated decision to step aside in favour his brother, Umberto, next June. Instead, he will stay on with full executive power in the hands of his faithful lieutenant, Cesare Romiti. This ducks the succession question in the Agnelli family for the time being, though prepares the way for a further dilution of their control.

At the same time Fiat has found a hard core of shareholders, along with the Agnelli family, to help raise cash to cover the likely substantial operating losses at the year-end. Fiat has not raised capital since 1984 and the planned rights issue will be the country's largest. With the sale of its Rinascente retailing arm and a complex set of other transactions, Fiat will raise an estimated L4,250bn (£2.6bn).

Fiat is in the middle of a L40,000bn investment programme to revitalise its car and truck ranges and boost other, non-auto activities. Its ambitions are, however, devouring funds almost as quickly as its robots can churn out new models, and come at a time of unprecedented difficulties because of the steep fall in demand for new cars and trucks in most leading markets.

Fiat's turnover on the cars side fell by almost 12 per cent in the first six months of this year while truck sales dropped by nearly 16 per cent. The falls were the main reasons behind this week's L966bn pre-tax loss for the first half of 1993.

The losses were much higher than most observers expected. Short of extraordinary profits from the disposal of assets such as Rinascente, they suggest 1993 will be by far the worst year in the company's history. As the group's cash flow is no longer sufficient to generate enough money for investment, Fiat has been obliged to turn to shareholders for help.

This week's package contained four main elements:

- The group will raise about L3,300bn via a series of financial measures. Shareholders will be offered new shares at L2,000 each, raising about L3,234bn. A further L194bn will come from the sale of non-voting shares to employees at the same price. Also, shareholders will be offered warrants, exchangeable for new ordinary shares, to produce a further L857bn.

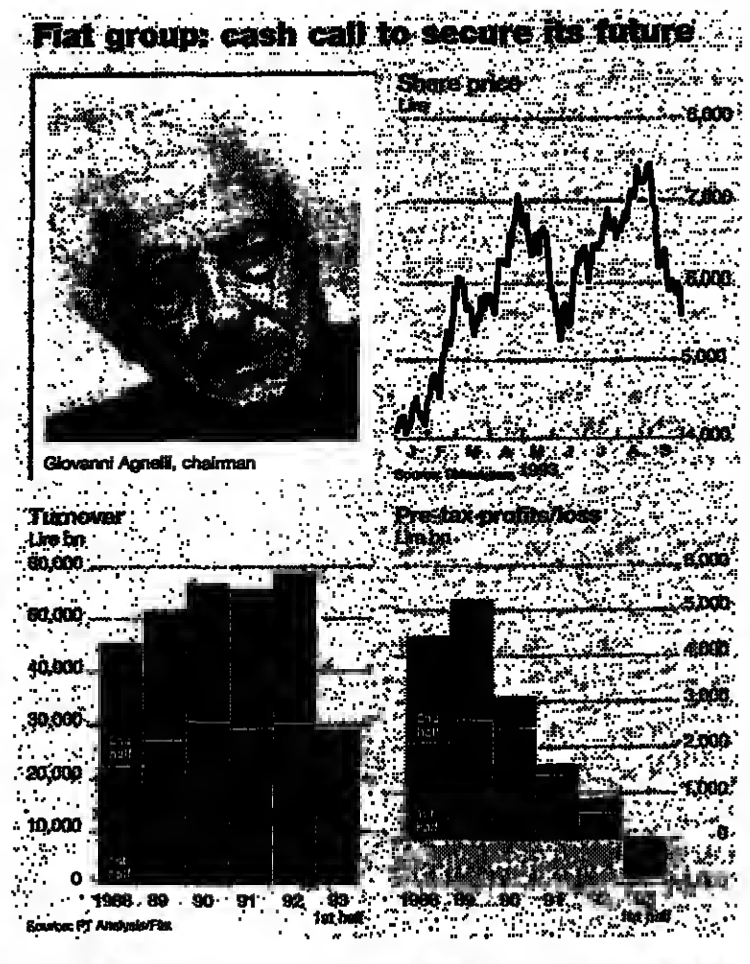
Separately, two big institutional investors will buy shares as well as subscribing to the rights issue. Alcatel Alsthom, the French industrial company which in 1991 purchased Fiat's Telettra telecommunications subsidiary, will invest about L615bn. That will repay a convertible bond linked to the Telettra sale and raise Alcatel's stake in Fiat to about 2.2 per cent from 1 per cent.

Meanwhile, Generali, Italy's biggest insurance company, will acquire 35m shares which, together with its subscription to the rights issue, will give it a 2.4 per cent holding in the Fiat group. In return, Fiat is to spend about L160bn on a 40 per cent holding in Generali's Paris-based Europ Assistance insurance and travel services operation.

- Fiat will sell control of Rinascente, Italy's biggest retailer, in which it owns 58 per cent of the ordinary shares. No price has been announced and Rinascente shares were suspended on Tuesday pending further information. Assuming Fiat receives a reasonable premium in return for ceding its majority stake, market analysts estimate the holding is worth about L1,250bn.

Rinascente is an attractive asset. The group made net profits of L102bn on sales of L5,040bn last year. Heavy investments in new stores and the modernisation of existing outlets helped lift this year's first-half profits by 31 per cent to L25.3bn, in spite of the recession, which has hit heavily into Italian retail sales.

While the rights issue and the sale of Rinascente were broadly expected and generally welcomed by the stock market, the two other aspects of this week's package were viewed much more cautiously.



Source: FT Analysis/Fiat

- Fiat failed to produce the long-awaited top management changes which many shareholders consider crucial to its future. Instead, Mr Giovanni Agnelli and Mr Romiti are to stay on for at another two years.

Neither is young. Mr Agnelli is 72, and was to have been succeeded by his brother, Umberto, almost 14 years younger, after next year's annual shareholders' meeting. Mr Romiti, managing director since 1976, is 70. Fiat justified the decision to waive the company's compulsory retirement age in terms of providing "continuity" in a tough period.

But the announcement has been seen as demonstrating the unwillingness of the Agnelli family, which owns a controlling stake in the Fiat group, to accept controversial decisions about the group's strategy. "These are the very people who have got Fiat into its present mess," says the Italian specialist at one leading UK stockbroker. "The company urgently needs new blood to push through drastic cost-cutting measures, similar to those taking place at Volkswagen."

Continuity could also prove risky on the legal front. A number of Fiat's senior managers have been implicated in Italy's 18-month political corruption scandal. Observers fear Mr Romiti, who has appeared before Milan magistrates investigating alleged kickbacks to politicians but has not been charged and has denied any involvement, could again face questioning.

- Fiat's decision to form a "hard core" of big shareholders, controlling 30 per cent of its equity, could be against the interests of smaller investors. The hard core – which includes newcomers Alcatel Alsthom and Generali as well as established shareholders such as Deutsche Bank and Mediobanca, the Milan merchant bank – has agreed to act in unison on important decisions. It also comprises Ifi and Ifil, two quoted investment companies dominated by the Agnellis.

The pact erects a cordon of institutional investors around Fiat, offering protection against the risk of a hostile takeover bid. It may also be a way of enshrining Agnelli family control of the company at a time when the group's cash needs could exhaust even the family's substantial personal resources.

Concern about Fiat's attitude towards minority shareholders has been accentuated by the structure of the Rinascente sale. Rather than selling the company to a third party, Fiat is ceding control to Ifil, which is one of its main shareholders.

The transaction is attractive for the Fiat group, in that it provides a quick and essential cash boost. Whether it is as appealing to the minority shareholders in Fiat, Rinascente or Ifil is less clear. The fact that all three companies have cross-shareholding links and are directly or indirectly controlled by the Agnellis has raised fears among critics of conflicts of interest.

Only when trading resumes in the shares of Rinascente and Ifil – which were suspended pending the announcement of details of the deal – will it be possible to gauge investors' reaction. Early indications suggested some hesitancy. Fiat's ordinary shares fell by almost 8 per cent yesterday, closing at L5,595.

Soundings among analysts suggest that there is sympathy for Fiat's commitment to the core cars business. Investors have been impressed by the group's determination to renew its ageing range of cars, starting with the new Punto small car. There is an acceptance that such modernisation requires a considerable cash injection.

But Fiat's failure to give a decisive signal on management changes and to provide more transparent terms for the sale of Rinascente have left a sour taste. Attractive new models and hopes for a recovery in the demand for cars in the second half of next year mean the group may be able to look back on 1993 as a nightmare. But the structure of this week's financial package suggests that transparency and the need to avoid the impression of conflicts of interest between the group's many areas of activity, remain fairly well down Mr Agnelli's list of priorities.

No case for subsidies to the arts

PERSONAL VIEW

Government support for the arts is now regarded as a normal and desirable element of public expenditure in Britain. Central and local government together now spend £850m-£900m a year on the arts and museums: central government expenditure has increased 15-fold, in real terms, since 1950.

But there is something odd about the arguments for this expenditure. Tha Arts Council believes public support is needed to replace institutional patrons and to encourage the development of the arts. But institutional patrons played little part in the development of the arts in Britain from the Reformation in the 16th century until the Arts Council was formed in 1946. As incomes grew, the theatre, music and visual arts – including innovative works – enjoyed the support of audiences and private buyers.

The scene was, and is, different on the Continent, where princes had their court theatres and orchestras which passed into the control of governments when the princes lost their powers. Subsidised companies now attract most of the audience on the Continent, but unsubsidised theatres still account for the majority of the audience in Britain.

Incomes and educational standards do most to determine demand for the arts. Both have grown faster in Britain in the last 45 years than at any other time; personal incomes are about 2.5 times their level in 1946 and 4.5 times their level a century ago. The demand for the arts today should therefore be much larger than it was in the centuries before 1946, in which the British cultural heritage was created. If the arts could flourish without subsidy then, they can flourish even better today.

Subsidy therefore seems unnecessary. It also seems undesirable, because it gives politicians and public servants the opportunity to influence the development of the arts. Decisions about support are supposed to be delegated to the Arts Council, but ministers have recently shown increasing desire to influence funding. And, within the council, decisions are bound to be influenced by current orthodoxies.

The audience for all forms of the arts is concentrated among the richer classes in western countries; in Britain, subsidies are concentrated on the richest area, London. Beneficiaries from subsidies to the arts are therefore likely to be richer than the taxpayers who finance the subsidy. This fact may explain why these subsidies are so strongly supported, but also suggests that they are socially inequitable.

The audience for all forms of the arts is concentrated among the richer classes in western countries

Although the Arts Council maintains that subsidy allows personal inclination rather than personal income to control access to the arts, subsidies to performing arts seem to have done more to improve quality and choice, and increase costs, than to reduce prices. Subsidies to museums, however, have allowed most British museums to maintain free access, a policy that makes less sense today – especially in London, where more than half the visitors to museums are foreigners.

Government policy towards the arts therefore seems misdirected. Increasing the number of people who can enjoy the arts is a justifiable objective: but the best means of achieving this goal is to introduce students to the arts in school, not to dispense subsidies to the suppliers of the arts. Students might also be given vouchers for free or cheap access to plays, concerts and museums as part of the educational process.

Direct subsidies from central government to arts companies should therefore be ended, while support to museums should be reduced. Some government subsidy is justifiable for museums, to help them to conserve the cultural heritage for the benefit of future generations and for their role in education, but the performing arts should be healthier if the government is not involved.

Any direct subsidies to the performing arts should come from local authorities. If the electorate is prepared to pay the taxes to finance the arts, a referendum, in the Swiss manner, would be the best means of determining its willingness to do so. Voters would presumably foresee benefits from this expenditure.

With subsidies from central government ended, there would be no need to retain the Arts Council and the Department of National Heritage. Responsibility for supporting museums and promoting the arts could be returned to the Department for Education. Subsidies to the performing arts could be run down over, perhaps, 10 years so the subsidised companies could adjust – a process thet is likely to imply reducing costs and obtaining more charitable donations.

David Sawers

The author is an economic consultant. The article is based on "Current Controversies No 7. Should the Taxpayer Support the Arts?", Institute of Economic Affairs, October 1993, £4.50

OBSERVER

Huntsman packs Packer

■ Last year was red letter time for Jon Huntsman. He had an audience with the Pope and he met media mogul and polo fanatic Kerry Packer. The latter relationship has blossomed and Huntsman was last week escorting Packer around chemical plants in Texas, celebrating completion of the purchase of most of Texaco's chemical interests in a joint venture between the Huntsman family and Packer's Consolidated Press Holdings.

Unlikely pair though they may be, the odd couple will be hatching *more plans*.

A devout Mormon based in Salt-Lake City, Huntsman runs America's largest privately-owned chemical company which he built from scratch to a $1.8bn turnover – due nearly to double again after the latest deal.

Inventor of the old MacDonald's hamburger containers, he also has a finely developed philanthropic streak and a fascination for the former Soviet Union. If he sounds like Armand Hammer reincarnated, he did meet the controversial oil magnate towards the and of Hammer's life at the time of the 1988 earthquake in Armenia, and the country has been a focus of his activities ever since.

His 18-month-old reinforced concrete facility is probably the largest western manufacturing operation in Armenia, while Hunstman funds, and three of his sons, helped distribute food to starving Armenians last winter.

Succession is assured, with the Huntsman clan encompassing nine children and 21 grandchildren. Four sons and two sons-in-law are already in the business, though eldest son John, still only 33, took time out as US ambassador to Singapore during the Bush administration. A 29-year-old son-in-law is chief financial officer, and number-something-else son works nights supervising machines printing bread bags.

Meanwhile, despite his endless ambitions, Huntsman is clear thet the company remains private while he's alive. "I'm not emotionally equipped to become the ceo of a public company. I couldn't give employees a house or a car when they need one."

Davis's gamble

■ No doubt first-hand experience of the Lloyd's market will help Peter Davis, yesterday revealed as the man to run the National Lottery, to handle disappointed losers sensitively. But in other respects he himself may be something of a gamble for the government in its new multi-billion revenue-raising exercise.

Davis, 51, who resigned as group finance director and depnty chairman of the large underwriter Sturge Holdings in March, apparently has the blend of accountancy skills and retailing experience that the National Heritage Department believes will make the new institution a winner.

'You can't get back in if you pop out to open a supermarket'

A high-flyer at Price Waterhouse, he was regarded as something of a catch in 1980 when he landed at Sir Phil Harris's carpet business. But his Harris Queensway stint ended less than happily seven years later, when Davis and other directors walked out. The former PW partner had failed to put in place the tough controls that were needed, though Harris is also known as a poor delegator.

Davis was then brought into Sturge to mastermind diversification of its business outside Lloyd's, but when the emphasis later turned to stringent cost-cutting, Devis decided to go.

The National Heritage department lets on that the new boy "likes an occasional flutter on the National or the Derby". Bnt he is basically a cautious soul at heart. Sir Phil certainly owes him one, for it was apparently on Davis's advice that the carpet tycoon decided not to become a name at Lloyd's.

Poles apart

■ Poland has stumbled into an *impasse* in its attempts to form *a government, thanks not least* to the constitution which hands the job of inviting someone to assemble the next one to President Lech Walesa.

He long since announced he'd ask the winning party to give him three names from which to choose. But he's still waiting for them even though the elections 11 days ago produced a winner in the Left Democratic Alliance – SLD for short – which has agreed with the Polish Peasant Party or PSL not only on forming a coalition, but also apparently on who should head the cabinet.

While the SLD wants to meet Walesa to advise him of their choice, he has decided to stand on his dignity. Hence he's insisting that the meeting cannot take place until he is handed the three names he originally requested.

In response, the parties are digging in too, with the SLD playing down the delay by saying it is continuing discussions with the PSL on a common programme. But cracks seem to be appearingin the agreement – with the PSL accusing the post-communist economists of being over-attached to liberal, free-market doctrines.

So who knows. Does Walesa hope the two parties will break epart before they get to meet him?

Worthy suggestion

■ Accountants Touche Ross reckons that football clubs are *under-estimating their assets* by failing to disclose the value of their players on their balance sheets. The remedy, surprise, surprise, is to employ a professional valuer to estimate players' worth and publish the figure in the accounts – someone like, say, Touche Ross.

But when it comes to disclosing the fees Touche Ross charged Manchester United for just such a service last year, the firm is rather less keen on disclosure. "It was done professionally, for a modest fee," is the response.

Gum struck

■ Why did the chewing gum cross the road? Because it was stuck to the chicken's foot.

FINANCIAL TIMES
Thursday September 30 1993

Fresh ultimatum is delivered to White House

Yeltsin acts to force wide economic change

By John Lloyd and Leyla Boulton in Moscow

BREAD PRICES in Russia are to be freed from tomorrow as one of several economic liberalisation measures decreed by President Boris Yeltsin, who is using his ban on parliament to push through changes which rebel deputies appear powerless to resist.

The decrees cut grain subsidies, bring in huge increases in rents and common domestic services, raise the bank rate to 180 per cent a year, curb cheap credits to industry, improve conditions for foreign investors, and deprive the trade unions of their main function, control over social security payments.

The measures aim to relieve the budget of its vast burden of subsidies and to pass to consumers the real costs of production and services. Bread prices are likely to rise sharply after they are freed, while rents for flats are forecast to rise 10 times. The decisions reflect Mr Yeltsin's confidence that he may impose harsh reforms while remaining secure in his position.

Foreign investors, whose most common complaint is the confusion between national and local laws and regulations, are to be reassured by a decree (which needs approval by the Federation Council grouping regional heads of government) laying down that only federal decrees will govern their decisions. The government is also acting to stem the often illegal outflow of hard currency from Russia.

Mr Sergei Filatov, Mr Yeltsin's chief of staff, yesterday predicted a "difficult period, with many hardships, for the population". However, both he and Mr Mikhail Poltoranin, head of the Federal Information Centre and a close presidential counsellor, noted that, in most opinion polls, Mr Yeltsin's popularity had grown.

The standoff with parliament seemed set to continue last night as the government issued a fresh ultimatum to the besieged deputies and paramilitary volunteers within the White House, the parliamentary building. It said that weapons must be handed over and the building cleared by Monday or "serious consequences" would ensue. The use of arms was again ruled out. An earlier deadline set for yesterday morning passed without incident.

However, both Mr Filatov and Mr Poltoranin said that negotiation with the leaders of the parliament was impossible. Mr Poltoranin said that any negotiations or compromises would be with the regional leaders. He thought compromises possible on dates for parliamentary and presidential elections, now set for December and next June respectively.

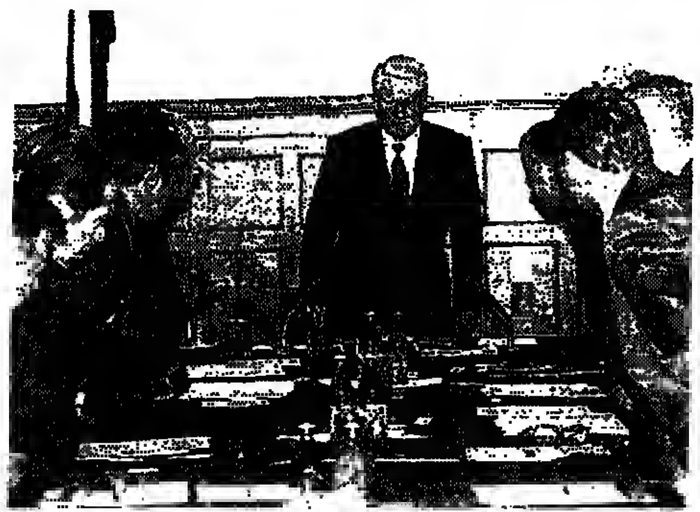
General Pavel Grachev, the defence minister, was quoted by the official Tass news agency as saying that "dangerous advisers" within the White House were pressing for terrorist attacks against Russian leaders. "As a military man I feel these are the first steps towards a large and bloody conflict".

He warned that a new organisation called Russian Union had been created to oppose presidential rule.

Interior ministry troops clashed with hundreds of supporters of parliament near the White House early yesterday evening as they pushed the demonstrators into the nearby Barrikadnaya metro station.

Russian reporters said they had seen makeshift spears stored near the metro station.

Regional leaders meeting yesterday in the Siberian city of Novossibirsk threatened to set up a Siberian republic unless the decree dissolving parliament was repealed.



Top advisers of President Boris Yeltsin (centre) take their seats at the start of the policy making security council meeting yesterday Reuter

Kuwait may drop objection to Opec quota cuts

By Robert Corzine in Geneva

THERE were signs last night that Kuwait might drop its resistance to the new oil production agreement which the Organisation of Petroleum Exporting Countries hoped would halt the sharp downward trend in oil prices.

The Kuwaiti resistance emerged earlier yesterday during a meeting of all 12 Opec oil ministers in which it was expected that an agreement would be signed. Iran, which had been holding out for a production quota of as much as 4m barrels a day, had paved the way for an agreement when it accepted a proposal to keep its output in the fourth quarter of this year to 3.6m b/d.

Mr Gholamreza Aghazadeh, the Iranian oil minister, said: "This result is very important for all member countries. We hope the price will go up because the ceiling is very good."

The market responded positively to the upbeat Iranian statement, with Brent blend for November delivery up about 40 cents to $17 in London.

However, the Kuwaiti delegation to the meeting in Geneva rejected the proposal by a sub-committee of three ministers and Dr Subroto, Opec's secretary general, that it cut its production to 2m b/d in order for Opec to stay within the 24.5m b/d output ceiling that it set on Monday. Kuwait, which pulled out of Opec's production ceiling in June, had an opening negotiating position that called for a quota of 2.16m b/d.

A Kuwaiti delegate expressed exasperation that the Opec mediators had refused a Kuwaiti counter-proposal that it cut its output to 2.1m b/d. "We have got nothing from Opec," he said.

A second Kuwaiti counter-proposal was being considered by the mediating team yesterday evening. It would restrict Kuwaiti production in the fourth quarter to the desired 2m b/d level, but would then allow it to move up to Kuwait's original target of 2.16m b/d in the first quarter of 1994. The proposal was expected to be discussed in the full ministerial meeting, which was due to resume last night.

The ministers are under severe pressure to come to an agreement that markets will perceive as credible. Oil prices have weakened steadily since April as demand in the industrialised countries has fallen because of the continuing recession.

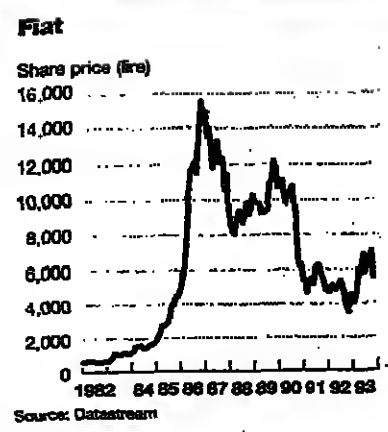
Chronic overproduction by some Opec states, such as Iran and Nigeria, have compounded the glut. The ministers have also been faced with the prospect that possible agreements with the United Nations may allow Iraq to begin oil exports within the next six months.

Commodities, Page 34

THE LEX COLUMN

Scottish heads south

FT-SE Index: 3030.1 (-6.8)



Source: Datastream

It is a mark of the absurdity of modern accounting that Grand Metropolitan and Scottish & Newcastle cannot agree on the price at which they struck their Chef & Brewer deal. Happily, both sides accept that £622m in cash will change hands, but GrandMet, which has an interest in talking up the total, says the package is worth £736m while S&N, with the aim of minimising the price, says the true figure is £703m. Most of the difference relates to the provision made by GrandMet to offset the cost of buying beer at above-market prices from Courage. GrandMet's figure allows for release of this provision, but S&N will also have to buy expensive beer from Courage till 1995. So if the price it is paying for Chef & Brewer looks cheap, it is cheap for a reason.

That does not make the acquisition a bad deal. The strategic advantage of a retailing position in the south made Chef & Brewer worth more to S&N than to Whitbread, which found the eventual asking price too steep. In theory, S&N brands will gain national reach and there will be no more question of dismissing it as a regional brewer. Relief that this strategic hurdle has been cleared may finally allow the shares to outperform, but it would be rash to count on too much too soon. The benefits will not accrue overnight, or without a lot more work.

There is not only the daunting challenge of disposing of surplus pubs in a difficult market. The Chef & Brewer estate also needs considerable investment, while it will be 1995 before S&N will be able to put much of its own beer through the system. Eventually, its acquisition could make it a formidable competitor to Whitbread in south-eastern pub retailing. Yet Whitbread has been investing in its retail estate throughout the recession. It has a head start.

UK gilts

The low cover on yesterday's gilts auction doubtless sent a shiver through those who fear that the £3bn-a-month funding programme must cause indigestion eventually. There are some who argue that as the market adjusts to the auction process increased sophistication will allow cover to fall. Longer term experience in the US suggests that cover remains a function of underlying demand. By that measure, the UK looks a little vulnerable. The recent weakness of sterling against continental currencies, and the consequential deterrent to overseas buyers who have seen the value of previous auction purchases fall, shows how critically dependent gilt auctions are on foreign support.

Since the tax increases announced in the last budget have yet to kick in, the chancellor's room for manoeuvre in raising extra funds in November must be limited by the risks of fiscal shock. There may only be limited room for the interest rate cuts which the market so confidently expects. This summer's re-rating of gilts may be sustainable, but it is hard to see where the next leg up is to come from.

Fiat

By launching its rights issue now, Fiat is asking shareholders for more than the usual act of faith. The company always looked likely to raise fresh equity at some point to fund its prodigious capital investment programme. But as yet Fiat can offer scant evidence that new models – such as the recently launched Punto – will be a success. The first signs of recovery in the European car market are probably the best part of a year away. On that basis, it is extremely difficult to judge whether Fiat will earn a decent return on capital now being sunk into the business.

The worry is that there is little in the capital-raising package to suggest that Fiat has changed its spots. The involvement of outside investors such as Deutsche Bank and Alcatel Alsthom might be taken as comforting. That said, Deutsche picked up its existing shares near the top of the market in 1986, which says little for its judgment of underlying value. On the surface, the planned sale of Fiat's 58 per cent stake in Rinascente, Italy's biggest retailer, marks a welcome step back from the empire-building of the past. Yet the convoluted plan to sell the stake to Ifil, one of Fiat's main shareholders, is no substitute for a clean break.

The suspicion remains that such changes have been forced on Fiat by circumstance. It would be more encouraging to see an infusion of new blood among top management instead of the old guard postponing retirement. Fiat's predicament stems from the poor performance of its automotive business during the late 1980s, during a period of unwise diversification. Raising equity is a remedy for the current financial headache, but it will not prevent a re-run.

Costain

Costain's record in recent years is an unmitigated catalogue of woe. From the disastrous foray into UK housing to the unfortunate double-sale of the company's Australian coal interests, the management's decision making has proved poor. Shareholder value has all but evaporated and net assets have fallen from £422m in 1988 to £72m at the last year-end. Even that was after a £77m rights issue in 1991 and presupposes that the Spitalfields site can bear the weight of its own valuation in Costain's books. Investors saddled with this history will still probably opt for the Hobson's choice of throwing good money after bad in the vague hope of recovery. The alternative is watching their existing investment suffer slow strangulation by its debts. At least the last rights issue was accompanied by a fat yield which has since gone the way of all flesh. Any dividends now seem a long way off.

Considering the violence which has been done to shareholders' funds, it is surprising that Mr Peter Costain, the chief executive, apparently still carries favour with the investing institutions – and all the more so since the recovery tale lacks conviction. The construction business remains the company's base, though in very competitive markets. Yet the recovery must come in North American coal, where Costain is up against very formidable competition from the likes of Peabody. Other chief executives have paid the ultimate price with better records. Yesterday's five-for-four issue might have been more palatable had Mr Costain announced that he was seeking a successor.

Pachinko strikes it lucky in the Japanese recession

By William Dawkins in Tokyo

PACHINKO, a cross between pinball and gambling which is one of Japan's most popular games, appears to be surviving the recession better than most industries.

The pachinko industry scored an astonishing Y17,000bn ($160.4bn) in sales last year, up 7.8 per cent on 1991, according to yesterday's Mainichi Daily News, in a study of the little-researched industry. That is more than the turnover of Toyota and Nissan combined.

Pachinko parlours, with their garish façades, are standard features of many Japanese shopping streets. Players sit in rows, facing upright pin boards on which they flip metal balls about for hours on end, accompanied by rock music.

All kinds of folk do it, from stressed salarymen to university professors. Nearly 30m people, a quarter of the population, confess to being addicts.

The sales figures mean that the average pachinko fan gambled Y566,666 ($5,345) last year. That might seem a lot, but the figures are skewed by a few big betters, who place up to Y30,000 a time on so-called "fever" machines, set to pay out high winnings for big stakes.

But despite their recession-proof sales performance, Japan's 17,000 pachinko operators say net earnings are being squeezed.

Average gross profit margins have nearly halved to 16 per cent since 1980 because parlours have increased their payouts – fever machines are an example – to defend their markets from a growing number of new operators seeking a share of those high rewards.

One operator maintains that only one in three parlours is actually profitable these days.

Competition is also forcing pachinko parlours to take a creative view of the gambling laws, which prohibit them from paying winnings in cash.

Instead, successful pachinko wizards are supposed to take winnings in kind. Anything from chewing gum to a computer will do.

Seeking to outdo their rivals, some parlours have started paying the biggest winners in gold ingots, according to the Mainichi Daily News study.

Others have taken to paying in tokens, which can be turned into cash at exchange desks, sometimes run by local *yakuza* gangsters.

FT WORLD WEATHER

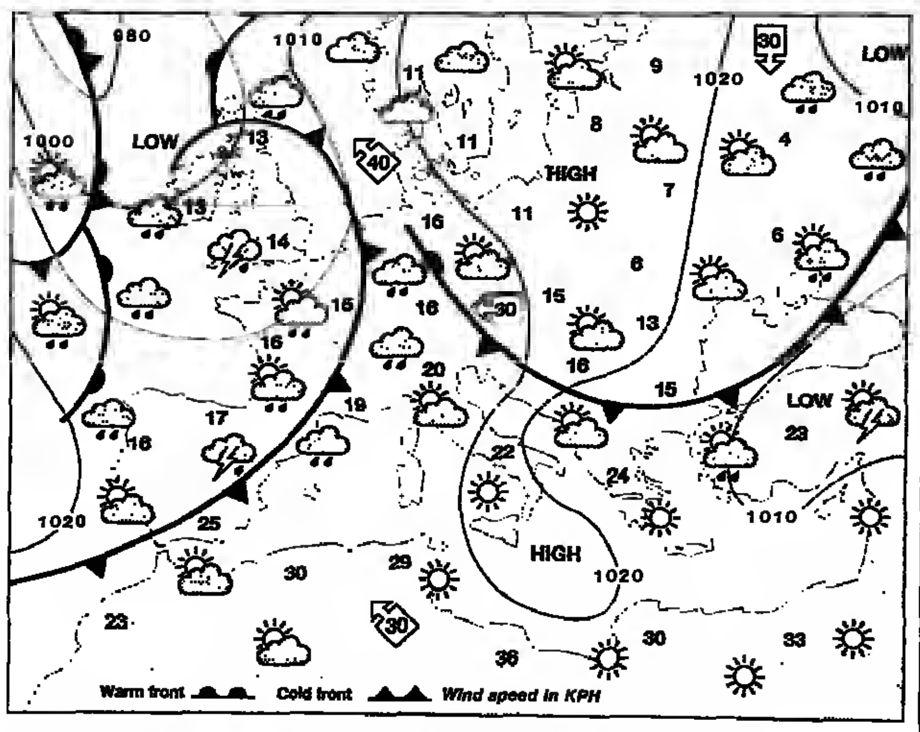
Europe today

Cold air from north-eastern Europe will be drawn south around a depression over the CIS. The cold air will reach the Balkans, where afternoon temperatures will stay near or below 15C. Summer temperatures will be found only in eastern Spain, southern Italy, Greece and Turkey. However, low pressure will result in afternoon thunder showers in Turkey.

High pressure will mean tranquil conditions with sunny spells over the Baltic states and most of Scandinavia. Overcast skies will linger over Norway and northern Scandinavia. Showers, at times accompanied by cracks of thunder, will develop easily in the unstable air over the UK. Afternoon maximum temperatures will be no higher than 12C-15C.

Five-day forecast

Strong low pressure over the UK will move slowly east, causing windy and unsettled conditions over most of western and central Europe. By the weekend, a disturbance over the southern Alps and Italy will bring abundant rain as it merges with a depression over central Europe. Early next week, a new and very potent Atlantic depression will reach the UK, producing rainy and quite windy conditions.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	37
Accra	thund	28
Algiers	fair	30
Amsterdam	cloudy	18
Athens	fair	26
B. Aires	shower	13
B.ham	shower	13
Bangkok	shower	31
Barcelona	shower	22
Beijing	fair	24
Belfast	shower	13
Belgrade	fair	18
Berlin	fair	14
Bermuda	fair	30
Bogota	fair	18
Bombay	shower	29
Brussels	shower	16
Budapest	fair	15
C.hagen	fair	13
Cairo	fair	31
Cape Town	fair	20
Caracas	fair	27
Cardiff	thund	13
Chicago	sun	18
Cologne	rain	18
D' Salaam	shower	29
Dakar	fair	31
Dallas	fair	31
Delhi	sun	34
Dubai	sun	37
Dublin	shower	13
Dubrovnik	fair	20
Edinburgh	shower	13
Faro	fair	23
Frankfurt	cloudy	20
Geneva	rain	14
Gibraltar	fair	25
Glasgow	shower	14
Hamburg	cloudy	14
Helsinki	fair	10
Hong Kong	shower	28
Honolulu	fair	31
Istanbul	shower	17
Jersey	shower	13
Karachi	fair	33
Kuwait	sun	42
L. Angeles	fair	27
Las Palmas	cloudy	26
Lima	fair	19
Lisbon	shower	20
London	rain	14
Lux.bourg	rain	15
Lyon	rain	17
Madeira	sun	22
Madrid	fair	20
Majorca	fair	25
Malta	fair	28
Manchester	shower	15
Manila	shower	31
Melbourne	fair	18
Mexico City	fair	19
Miami	thund	29
Milan	fair	17
Montreal	fair	8
Moscow	sleet	4
Munich	cloudy	18
Nairobi	fair	28
Naples	fair	23
Nassau	fair	32
New York	sun	13
Nice	rain	19
Nicosia	fair	28
Oslo	cloudy	12
Paris	shower	17
Perth	shower	18
Prague	fair	15
Rangoon	cloudy	33
Reykjavik	cloudy	9
Rio	fair	23
Riyadh	sun	37
Rome	fair	22
S. Frsco	sun	25
Seoul	fair	20
Singapore	cloudy	30
Stockholm	fair	11
Strasbourg	shower	18
Sydney	fair	25
Tangier	sun	23
Tel Aviv	sun	30
Tokyo	fair	24
Toronto	sun	11
Tunis	fair	29
Vancouver	sun	19
Venice	fair	20
Vienna	fair	15
Warsaw	fair	10
Washington	sun	16
Wellington	fair	14
Winnipeg	fair	18
Zurich	shower	18

Finance minister expounds his policies PAGE 6; **profile of the BJP party** PAGE 4

FINANCIAL TIMES SURVEY

INDIA

Thursday September 30 1993

A country with a pace and rhythm of its own: a familiar scene on the streets of India, where motor vehicles jostle with more traditional forms of transport

The obstacles to modernity

Militant Hindu nationalism has provoked a painful reappraisal of India's political identity, which could impede the reforms vital to her future, says **Stefan Wagstyl**

FOR nearly a year, India has been living in the shadow of the ruins of the Ayodhya mosque, torn down last December by Hindu militants.

The mosque's destruction and the violence which followed have plunged Indians into a deep bout of soul-searching about their national identity. It has left the ruling Congress (I) party seriously concerned about its own political future. It has harmed relations with Pakistan. And it has consumed the energy of the government of Mr P V Narasimha Rao, the prime minister.

Economic reform, ministers' top priority until mid-1992, has been pushed aside by the urgent need to fight the fires started by Ayodhya. There is little prospect of the economy returning to the top of the agenda at least until after state elections dua to be held in northern India later this year, when Ayodhya will be the main issue. Even afterwards, it is unlikely that Mr Rao will have the stomach for further radical economic changes.

With luck, the reforms which have already been carried out should enahle India to maintain a steady growth rate of 5-6 per cent in the mid-1990s. Deregulation is opening India to the world – in the coming years there will be much more foreign trade and investment. But with the reforms slowing, the prospect of India astonishing the world hy staging a Chinese-style economic take-off is becoming increasingly remote.

The Congress party's ideal of a secular India, in which Hindus, Moslems and other religious minorities live together in harmony, seems to have lost its appeal for many Hindus. They are searching instead for a stronger sense of national identity and finding it in the opposition Bharatiya Janata Party's calls for greater Hindu self-assertiveness.

The BJP is taking risks by exploiting inter-religious tensions. At least 20,000 Indians have died in Hindu-Moslem violence since independence – more than 2,000 in the unrest which followed Ayodhya. But violence does not seem to have cost the BJP much support.

in his Independence Day address last month, Mr Rao warned that India faced disintegration if religious tensions grew worse. "Nobody has the right to go and ask for votes in the name of Hindu, Moslem or Christian religion. No one has a right to exploit the sentiments of the people by creating a frenzy."

The BJP's answer is that without a greater sense of being Hindu, India is nothing. Mr KR Malkani, a party vice-president, says: "A country the size and diversity of India cannot be held together without a common culture. Since there are quite a lot of Hindus here, that culture should be modern Hindu culture."

Congress is in a quandary. If it attacks Hindu militancy too aggressively, it risks alienating Hindus, who, after all, constitute 80 per cent of the population. But if Congress is soft on militancy, it risks losing its traditional support among Moslems and low-caste Hindus, who distrust the high-caste leadership of the BJP. Congress's answer has, so far, been to try to steer between the two extremes – at the cost of irritating both wings of its support.

A crucial test of voters' opinion comes in state elections to be held in Novemher and December in four northern states. All were ruled hy BJP governments until they were suspended for allegedly failing to follow central government orders after Ayodhya. The BJP expects to win all four. Congress will be fighting desperately to limit its losses.

If Congress fares badly, Mr Rao will he under pressure from the party to resign. The BJP would almost certainly repeat demands for an early general election, hut would be unlikely to get one. The present Parliament's term does not expire until 1996.

The outlook seems to be for prolonged political uncertainty. Congress has ruled for two years without an overall parliamentary majority. At first, Mr Rao was able to win support from centrist splinter groups quite easily. Today he struggles. According to opinion polls, if a general election were held now Congress would lose seats but would still be the single biggest party. The BJP would gain MPs but not enough to overtake Congress. While strong in northern India, the BJP is too weak in the south and west to form a national government. The centrist Janata Dal and the parties of the left would remain a potent third force.

None of this bodes well for future economic reform. The government was at its most energetic immediately after the 1991 balance-of-payments crisis when the threat of international default galvanised Mr Rao into action. Mr Manmohan Singh, the finance minister, presided over reforms which, hy Indian standards, were mould-hreaking. A panoply of controls over industry, called the "licence Raj", was dismantled; import bans and duties cut; and the rupee mada convertible on the trade account. Public sector spending has been squeezed. in the financial markets, the key changes include extensive banking reforms such as the introduction of proper accounting and provisioning standards. Further reform of finance and foreign trade is in the pipeline.

But the government has baulked at more far-reaching economic restructuring. Ministers postponed plans for extending employers' rights to sack redundant workers, something which is virtually impossible under current legislation. They have also been half-hearted in pursuit of privatisation, refusing to countenance the sale of more than 50 per cent of a public sector enterprise. Little has been done to rationalise the inefficient public sector which accounts for nearly half the nation's capital hut only produces 27 per cent of its output. The government has also been slow to cut subsidies to farmers and other politically-privileged groups.

Congress is reluctant to act for fear of hurting interest groups such as wealthy farmers, hureaucrats and trade unionists who are among the party's most loyal supporters. MPs rely for patronage on their influence over public sector appointments and contracts. They would not willingly cut the ground from under their own feet.

However, ministers may have already done enough to generate steady economic growth. From a low of 1.2 per cent in 1991-92, economic growth in the year to the end of March 1994 is forecast to recover to 5 per cent. Inflation has fallen from a peak of 13.6 per cent to about 6 per cent. Exports are rising rapidly. There are signs of a strong recovery in industrial output. Foreign direct investment is starting to flow, albeit at a modest \$100m-\$200m a year.

Moreover, middle-class Indians are beginning to see the benefits of liberalisation: competition from private airlines has jolted Indian Airlines, the state-owned domestic carrier, into improving services. Private satellite television operators have prodded Doordarshan, the state broadcasting network, into launching better programmes.

Across India, reforms have created big opportunities for entrepreneurs, particularly in exports. Jewellery makers of Surat, for example; garment factories in Bombay; software producers Bangalore; car parts manufacturers in Madras. All have benefited from deregulation and the devaluation of the rupee. In domestic markets too there are pockets of rapid growth, notably among the middle-classes for high quality goods and services – within days of announcing a new model, the Zen, Maruti Udyog, the carmaker, had a three-year waiting list.

☐ Continued on Page 3

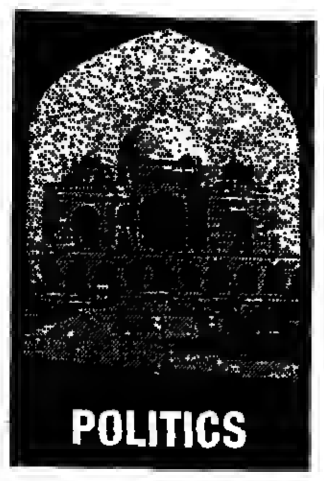
IN THIS SURVEY

Editorial production: *Maurice Samuelson*
Design: *Robin Coles*
Graphics: *Robert Hutchison*

INDIA 2

The tide of Hindu militancy threatens to breach Congress's defences, reports **Stefan Wagstyl**

Ruling party is yearning for a new Nehru



It is ths lull before the storm in Indian politics. For much of the year, India has been waiting for a settling of accounts over the sacking of the Ayodhya mosque and the inter-religious violsnce which it provoked.

Voters will finally have their say in state elections to be held in four northarn states in November and December. The polls will cover nearly a third of India's population, but their results will be as significant as any general election.

"Ths fight will be fairly tough. There's no doubt about it," says Mr Arjun Singh, the minister for human resource development and a leading figure in the ruling Congress (I) party.

The crucial question is the extent to which the Hindu militants who tore down the mosqne have gained or lost from tha ensuing upheaval. The betting is that they have profited handsomely: the Bharatiya Janata party, the opposition Hindu militant party, is riding high in opinion polls; the ruling Congress (I) party is in disarray with Mr P V Narasimha Rao, the prime minister, fighting to contain dissent in his ranks. Disenchantment with Congress runs so deep that even the left-wing parties, weakened by years of in-fighting, have recently seen a modest revival.

Whatever the voters decide, Ayodhya seems likely to continue to dominate the political agenda. Just at the time when the government is carrying out the most extensive economic reforms in 40 years, ministers have little time for anything but Ayodhya and its consequences.

Mr Manmohan Singh, the finance minister, concedes in an interview in this survey that, while the government remains committed to economic reform, Ayodhya and other issues have diverted attention. Mr P. Chidambaram, a former commerce minister and a strong advocate of economic reform, puts it more hluntly: "When we began the reforms [two years ago], economic reform was at the top of the agenda. Now it has slipped to third place behind communalism [relations between religious communities] and the internal debate in Congress about how to confront the challenge caused by communalism."

The Ayodhya mosque's destruction and the violence which followed it caused widespread revulsion among many middle-class Indians. It brought terror into the lives of many of the poor in northern cities and in Bombay which bore the brunt of the unrest.

But even at the height of the violence there were those who cheered the action of the Hindu militants. Since then, it has steadily hecome mora acceptable for middle-class Hindus to make public their support for the BJP. They like the argument that it is time for Hindus to assert themselves; that Moslems have enjoyed too many favours in a predominantly Hindu country; that it is time for India to become Hindu.

These sentiments are often vaguely-expressed, but they are powerful. At a sub-conscious level, they reflect the unease which economic growth and urbanisation often causes in traditional rural societies. As the long-standing bonds of regional and caste loyalty weaken, so Indians are searching for a sense of identity.

As the party which fought hardest for independence, Congress has s strong nationalist streak in its ideological make-up. But with the independence struggle now a distant memory, many Hindus find Congress's form of nationalism too bland. They have also come to distrust the party efforts to gather support from the nation's minority groups, notahly the Moslems. Even though Moslems have remained poor and socially-disadvantaged, many Hindus have swallowed the BJP's argument that Moslem "privileges" must be restricted – such as the right for family and other personal matters to be settled by separate Islamic law. Mr K.R. Mulkani, BJP vice-president, speaks for a growing number of Hindus when he says: "It's all right for Moslams to have a sense of identity. But do they have to stick out like a sore thumb?"


BJP leader Lal Krishna Advani (centre, in glasses) at a party rally outside parliament in Delhi earlier this year *Karen Wille*


Hindu militants set a bus alight near the Babri mosque in Ayodhya

Many Hindus find Congress's form of nationalism too bland

Congress faces a profound dilemma. If it stays with its traditional supporters, it risks being left behind by the shift in Hindu opinion. If it drifts to the right to try to absorh tha milder elements of Hindu militancy, it risks alienating not only Moslems but also others who are suspicious of Hindu militancy such as formar untouchahles and other disadvantaged castes. The disadvantaged castes are concerned about Hindu militancy because the militants' leaders are predominantly high caste people. They fear such leaders might encroach upon tha disadvantaged castes' privileges, such as special quotas for government jobs.

Concern about the threat to job reservation is driving many low-caste voters away from Congress and into the arms of Janata Dal, the main left wing party, and its allies. Mr V.P. Singh, the Janata Dal leader, has made job reservation his top issue. To try to recover lost ground, the government this month extended job reservation from the most disadvantaged groups – the scheduled castes and scheduled tribes – to the less disadvantaged – the other backward classes. Fully 49 per cent of government jobs will now be set aside for the disadvantaged. But it still may not be enough for Congress to steal Janata Dal's thunder.

Mr Narasimha Rao has from tha start headed a minority government, since the 1991 general election left Congress without an absolute majority. Worse, because its support in 1991 included a wave of sympathy for Rajiv Gandhi, the recently assassinated Congress leader, the result concealed the true level of voters' disenchantment with Congress. Mr Rao had a good first year, with much puhlic recognition for his handling of the 1991 economic crisis.

But since last summer, his snpport has withered as the BJP has moved centre stage and forced other parties on to the defensive. According to an opinion poll published last month in the magazine India Today, Congress would now secure only 198 out of 537 seats in the lower house of Parliament if a general election were held – compared with 245 in 1991.

In July, Mr Rao survived a no-confidence motion hy just 14 votes, tha narrowest margin ever. In an unprecedented alliance of left and right, the left-wing parties and the BJP combined to attack the government over Ayodhya and over corruption charges levelled against Mr Rao by Mr Harshad Mehta, the stockbroker at the centre of last year's financial scandal.

All is not lost for Congress. In India, issues, even those as contentious as Ayodhya, are only half the battle in elections. The other half is patronage: as the party in government, Congress, is as well placed as ever to promise voters in the four northern states government jobs, building schemes and other electoral sops. Even straightforward cash bribes are commonplace in the Indian countryside.

However, it will be very difficult for Congress to come out well in the forthcoming polls in the states of Uttar Pradesh, Madhya Pradesh, Rajasthan and Himachal Pradesh. All four were ruled by BJP governments until last December when they were abolished after Ayodhya for allegedly failing to carry ont central government instructions in implementing anti-Hindn militant measures.

Mr Malkani of the BJP says the party will win all four states – and most independent commentators agree. Congress's main chance could be to try to woo centrist splinter groups among the left-of-centre parties. But Janata Dal and its allies this month announced plans to stand on a united platform.

To improve its prospects, Congress has arranged for the Election Commission, which supervises polls, to stagger voting over a month, with the first vote in Himachal Pradesh, where Congress believes it has the best chances. But even if the polls proceed in this way (a final decision has yet to ba taken), commentators do not see Congress winning even one state. Worse, it is expected to fare particularly badly in Uttar Pradesh, India's largest state and the site of Ayohdya.

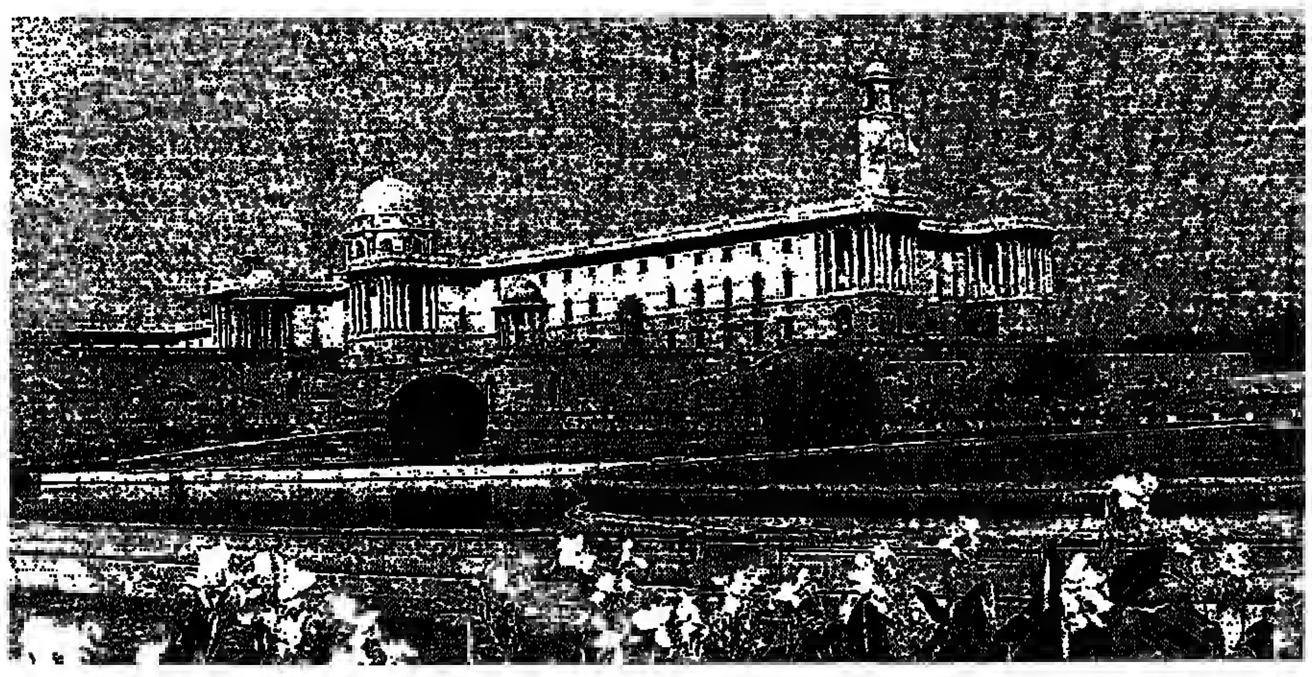
The BJP says that, if it wins the state polls, it will demand a general election. Congress is unlikely to ohlige. Bnt Mr Rao's enemies are bound to ask for his head. His critics accuse him of being too soft on the BJP and urge him to be more forthright in his condemnations of Hindu militancy. Chief among them is Mr Arjun Singh, who, while publicly protesting his loyalty to Mr Rao, has fomented dissent. Mr Singh does not hide his ambitions to be prime minister one day. He is also anxious that Congress should not lose the fight with the BJP by default.

Fortunately for Congress, the BJP is still some way from winning an overall majority in a general election. Its power lies in the north; in the south and west, which inelude some of India's most prosperous regions, its impact has so far been weak. Also, in the north, the left-of-centre parties have recovered some ground, even from the BJP. Congress's support in the south, its traditional powerbase, has slipped. A hig blow this year has been the loss of support from Ms Jayalalitha, the chief minister of Tamil Nadu and leader of the local DMK party.

The most likely result of a general election would therefore be a three-way split between Congress, the BJP and the left-of-centre parties. India Today's opinion poll estimates that while Congress could see its lower house representation slide from 245 to 198, the BJP's would rise from 119 to 166 and the Janata Dal and the left-of-centre parties' would increase from 136 to 153.

Given its access to patronage, Congress might still emerge as the party of government. But it would have to strike so many deals with actual and potential splinter groups that its ability to carry out coherent policies would be seriously compromised.

This prospect leaves even loyal Congressmen deeply concerned about their party. Some dream of rebuilding a centrist alliance with Congress at its core, which would capture support from both the BJP and the left. But they are at a loss to say what this alliance would stand for; what its ideology would be. Others talk vaguely of finding a new strong man to lead the party. More than one says wistfully: "We need another Nehru."



Prime minister Shri P V Narasimha Rao (above): a year of success followed by a succession of failures. His party faces its biggest ever challenge to its hold on the seat of government in the capital New Delhi (right)

Prime Minister Narasimha Rao's prestige has collapsed. But is it all his own fault, asks **Stefan Wagstyl**

Cautious leader of a hesitant party

MR P.V. Narasimha Rao's political fortunes are at their lowest ebb since he became prime minister.

Brought in hurriedly to lead the ruling Congress (I) party in mid-1991 after the assassination of Rajiv Gandhi, Mr Rao proved remarkably adept at enhancing his own and his party's power during his first year in office. He won praise at home and abroad for supervising the launch of India's most extensive economic reform programme.

But Mr Rao's reputation has slumped since last summer: financial scandal, growing party concern about the impact of reform on political patronage, and, above all, Ayodhya have undermined the prime minister's reputation. He is pilloried as the leader who cannot lead, as a man who cannot take difficult decisions at a time when India faces hard choices.

There is some truth in the criticisms. But Mr Rao's reluctance to make these choices is as much a reflection of his party's weaknesses as of his own. It is as much Congress as Mr Rao which is cautious about pushing ahead further with economic liberalisation and about mounting a coherent challenge to the forces of Hindu militancy in the opposition Bharatiya Janata party. For better or for worse, Congress has the leader which it deserves.

Mr Rao, who was born into a high-caste Brahmin family in 1921 and is a lawyer by training, won acclaim as a scholar and a poet before going into politics in his home state of Andhra Pradesh, in the south, in the late 1950s. He worked his way up the Congress party, winning praise for his skills as a backroom organiser rather than a platform politician.

His first job in Delhi was in 1974, when he became general secretary of the All-India Congress Committee. He served Indira Gandhi and her son Rajiv Gandhi as foreign minister, home minister and minister for human resource development.

But while he worked well in the salons of Delhi, he rather neglected his home state and, unlike other Congress leaders, never built a strong personal power base.

Loyalty to the Gandhis made Mr Rao an ideal candidate to replace Rajiv Gandhi in the midst of a general election. He was best able to capitalise on a wave of public sympathy which brought Congress back to power, propelling Mr Rao into the prime minister's chair. At the time, many Congress members did not expect Mr Rao to stay in office long, with other leading figures such as Mr Arjun Singh, the human resources development minister, and Mr Sharad Pawar, then defence minister, angling for the top post.

But Mr Rao has skilfully contained the ambitions of both: Mr Pawar has been sent back to his home state of Maharashtra to deal with the aftermath of the riots and terrorist bombs in Bombay. Mr Singh remains in Delhi, a thorn in the prime minister's side, but one he has learnt to live with.

Waiting in Delhi: Arjun Singh, one of the premier's Congress rivals

Mr Rao did not have the slightest intention of promoting economic reform when he came to office. But the reform agenda was thrust upon him by the mid-1991 balance of payments crisis.

It also provided a good opportunity to steal some of the thunder from the BJP, which had openly advocated economic liberalisation from the late 1980s. Mr Rao borrowed their policies wholesale.

Mr Rao's low-key approach helped Dr Manmohan Singh, his finance minister, secure the support needed for reform. Mr Rao patiently persuaded Congress members that there was no option but liberalisation if India was to pull out of the crisis.

But caution and clever tactics have not proved enough to deal with the next two pressing problems on the agenda - how to pursue further economic reform and how to deal with the BJP.

As far as further reform is concerned, Mr Rao is probably more than happy to postpone difficult decisions. His party shows little inclination to make controversial moves, such as selling loss-making public enterprises, modernising bankruptcy laws or permitting employers to dismiss redundant workers.

With economic growth now back at about 5 per cent, foreign exchange reserves high and exports soaring, Congress members are not at all convinced that further radical reforms of any kind are necessary, let alone the kind which might bring job cuts.

The BJP is quite a different matter. Mr Rao has tried to ride out the storm caused by the sacking of the Ayodhya mosque.

Whether his policy has been right will be shown in the state elections in the four northern states in November and December. But there are strong indications that Congress has lost ground to the BJP in the last year and to the left-of-centre parties including Janata Dal.

For this, Mr Rao is now under intense, if largely silent, pressure from critics inside Congress, including Mr Arjun Singh. If Congress fares badly at the polls, these critics will want Mr Rao out.

Congress as a whole is as much to blame as Mr Rao for failing to confront the BJP successfully. Like the prime minister, the party is plagued with doubts about whether it is better to confront Hindu militancy or to compromise with it. The prime minister's personal shortcoming has been his inability to promote with sufficient force an alternative agenda to the BJP's religious zeal. Economic reform is such an alternative. But, apart from Dr Manmohan Singh, no-one in the present cabinet has staked much political capital on liberalisation. Certainly not Mr Rao.

Mr Rao's success will be judged by the elections in the four northern states

The road to modernity

□ Continued from Page 1

Unfortunately, none of this seems enough to transform the Indian economy. In the immediate aftermath of the 1991 reforms, there was much talk in Delhi of India following China into high-speed development.

That now seems rather unlikely. Finance ministry officials expect reforms to generate sustainable growth of 5-6 per cent a year: that is well worth having, but it is the same as India enjoyed pre-reform. For a developing country, it is the economic equivalent of muddling along.

Moreover, there is still a risk that growth might slow. Government borrowing, which fell sharply after 1991, is now expanding so fast that the Reserve Bank of India, the central bank, has sounded the alarm about a possible resurgence in inflation. Finance ministry officials are concerned but are under great pressure from Congress to keep spending up at least until after the state elections.

Also, despite liberalisation, the bureaucracy retains much of its grip. For example, the Companies Act still requires an enterprise to file no fewer than 66 different official reports. Armies of inspectors are employed to supervise the process. The number of separate clearances required, particularly for large and complex projects, still puts off potential investors, especially foreigners. Mr Udayan Bose, chairman of Creditcapital Finance Corporation, a merchant bank, says: "The regulators don't seem to realise that investors don't have to invest in India. They have other places."

Furthermore, there is too little investment in power, transport and other infrastructure. In the next two or three years, shortages of electricity and other services will slow growth. In power, for example, the squeeze on public sector spending limited growth in output in the year to March 1993 to just 5 per cent, compared with 9 per cent a year in the 1980s. The government hopes that private companies, including foreign groups, will close the gap. But private investors have reservations about the terms which the government is offering. Even if deals were signed tomorrow, it would be three years or more before the first new large private sector stations came on stream. Mr Tarun Das, general secretary of the Confederation of Indian Industry, the employers' body, says: "We see a very bleak outlook for infrastructure."

Finally, the benefits of growth will be restricted to high-growth centres such as Delhi, Bombay and Bangalore unless the great majority of Indians can become better trained to participate in the industrialised economy. Decades of under-investment in primary education has left India among the world's least literate nations - with just 52 per cent of adults able to read compared with 73 per cent in China. Except for the oil-rich Gulf states, no country has achieved economic take-off without also achieving a literacy rate of 60 per cent. Without better education, India cannot hope to control population growth, which is running at nearly 25 per cent a decade. By the year 2000 there will be 1bn Indians.

Some businessmen believe that the only way for India to confront these problems is at the state level. "We must abolish the centre," says one company chairman in Bombay, who argues that India is too big to govern centrally and, given its diversity, well suited to decentralisation. Decentralisation might also take some steam out of separatist movements in the troubled northern state of Kashmir and elsewhere. But Delhi is too powerful to surrender control without a struggle. And there is little sign that the larger states are ready to fight this battle.

By its own standards, the Indian economy is changing out of all recognition. But by the standards of those developing countries which have achieved industrial take-off it is moving too slowly. The danger is that without more reforms there will not be faster growth. Without faster growth there will be too little money to satisfy many Indians' aspirations.

Dissatisfaction breeds anger and anger spawns Ayodhyas.

Shiraz Sidhva assesses the power of the BJP opposition party

Challenge from homespun right

EARLIER this month a group of eminent jurists, doctors and politicians clad in homespun khadi cloth, congregated at a seminar in New Delhi to warn against the dangers of what one of them termed "the Coca-Cola culture". The backdrop of the podium showed Mother India astride a lion and the speakers represented the Swadeshi Jagaran Manch, an organisation promoting the use of *swadeshi*, or Indian-made, goods.

Forty years ago, Mahatma Gandhi cleverly linked the concept of *swadeshi* with freedom from British rule. Today, the Rashtriya Swayam Sevak Sangh (RSS), the parent organisation of the Bharatiya Janata Party, is launching a movement against the "indiscriminate" entry of multinationals into the Indian market it fears will accompany the ruling Congress (I) party's economic liberalisation programme.

India's liberalisation programme is unlikely to grind to a halt if there is a change in government and the BJP comes to power. But any shift in emphasis could hurt foreign companies. "We are all for reform," says Lal Krishna Advani, the party's president. "We support liberalisation, but believe that internal liberalisation must precede globalisation and must be introduced in phases."

The ambiguity of Mr Advani's comment reflects the diversity of opinion among the party's support groups, ranging from the near-autarchic RSS to free marketeers. Herein lies the threat to foreign companies. A BJP government would not reverse reform. But it might be more willing than Congress (I) to pick fights with multinationals to satisfy some of its more nationalistic affiliates such as the RSS.

In the most detailed statement of the BJP's economic policy – its "shadow" budget, published a week before the government's own budget in February – it recommended the abolition of controls on production, cuts in tax and interest rates, encouraging the infrastructure sector and special concessions to small industries in rural India.

Liberalisation is unlikely to grind to a halt if the BJP gets power but there may be a shift in emphasis

Mr Advani disagrees with those who say that the BJP's economic policy is no different from that of the Congress party. "The Congress introduced liberalisation merely as a response to averting the country's balance of payment crisis in 1991. For the BJP, a deregulated economy is a matter of conviction and commitment," he says.

Mr Jagdish Shettigar, an economist and member of the national executive which formulates the party's policies, says: "The BJP believes that India should introduce delicensing in the fullest sense of the term, and starting an enterprise should be as simple as using a road. You still need all sorts of permissions and clearances today, which have to go if we are to progress. What we need are guidelines, for safety, labour and the environment, not a quota and permit raj."

The party believes fewer controls would automatically eliminate corruption. Party leaders see no contradiction between the advocation of *swadeshi* and the opening up of the economy. "We have a holistic and humanistic approach to the economy," says Mr Shettigar, an RSS member and part of the BJP's economic think-tank.

"We define *swadeshi* as anything that is good for the country and reforms, if introduced rationally, are good for the country. The government has no business to be in business," he says.

BJP leaders point out another basic difference between their economic policies and those of Congress (I). The ruling party allows foreign investment in all but a few core areas which have been reserved for the public sector while the BJP has specified that it would not allow multinationals in the consumer goods sector but only in high-technology areas.

"We don't need consumer goods like soft drinks and potato chips, especially when they are so much more expensive than Indian-made goods and only slightly better in quality," Mr Shettigar says. "We cannot have multinationals buying our potatoes at Rs2 and selling them as chips at 10 times the price," he says.

But Mr Advani says that multinationals already operating in India "will not be asked to pack up and go" as Coke and IBM were in 1977 when the Janata party took over. "There will be economic continuity, but we shall not encourage any new foreign investment in the consumer goods sector."

The BJP's support for "speedier reforms" and "reforms in a phased manner" at different forums indicates that the party has yet to iron out its economic programme. The RSS has further confused the issue by announcing boycotts of multinationals and Indian companies such as Godrej Soaps, which has linked up with Procter and Gamble, the international soap company.

Mr Pramod Mahajan, the BJP leader in Bombay who has won the BJP much business support, says the party's model for foreign trade is Japan, where free trade is encouraged with subtle import controls. It advocates a legal framework providing a level playing field for Indian businessmen.

The party, which has a traditional support base of small traders, has started wooing big business in India. Businessmen usually fund and support the ruling party but many now are veering towards the BJP, some because of the party's growing importance, others because they believe that the BJP would introduce a more liberal economy and present a credible alternative to the Congress (I), which they blame for the current economic problems.

"We don't need consumer goods like soft drinks and potato chips, as they are so expensive"

The party is in turn seeking the help of big business to gain power. More than 40 top industrialists received a letter from Mr Advani this July, weeks after he took over as president of the party for the second time. Mr Advani was keen to reassure the business community after his predecessor, Murli Manohar Joshi, and some of the party's old guard had attacked the Congress (I)'s reforms package.

The letter was sent out together with taped speeches and newspaper clippings spelling out the party's agenda. It asked businessmen for a "token contribution" to be paid by cheque. (Political offerings are usually unaccounted for, so the insistence on cheques illustrated the party's resolve "to cleanse public life".)

The party beat its target of Rs500m from the industrialists, who said they would respond to Mr Advani's request for more funds "in the course of time".

The BJP's critics say it is easier to spell out a hypothetical economic policy than to implement one when in power. A Congress (I) leader says that some of the country's worst economic offenders are the BJP's traditional support base of small traders. "Will the BJP be able to clamp down on these tax evaders and still retain their support?" he asks.

"How can the BJP talk of salvaging the economy when they have struck the worst blows to it in the past year?" asks a senior opposition MP. "The BJP sought the destruction of the mosque in Ayodhya, which led to colossal economic loss and the deaths of over 2,000 people, and the BJP is an ally of the Shiv Sena who engineered the riots in Bombay in December and January. They will have to give up their politics of destruction before telling us how to improve the economy."

Ahmedabad usually suffers six riots a year, reports Sajeda Momin

A city at war with itself

A GROUP of schoolboys plays cricket in a back alley of Ahmedabad. The ball accidentally hits a passer-by, and it is enough to spark off a communal riot between Hindus and Moslems in the city.

Ahmedabad has had the worst record of riots in the country – each year, for the past eight years, there have been at least six riots on an average. Curfew is imposed and the army often summoned to help restore law and order, workdays are lost, and factories come to a grinding halt.

The city's streets are transformed into a wasteland by arsonists shouting slogans and setting buses and cars alight. The looting and arson is often carried out by gangs divided along religious lines. And the police are little help at times like these because they become Hindus or Moslems first, to the detriment of duty.

This once-flourishing industrial city of Gujarat in western India has been tainted by its violent reputation. And yet, it is not that its people are intolerant. The Gujaratis are usually a timid, peace-loving race. Founded by the Moghul emperor Ahmed Shah on the banks of the river Sabarmati, Ahmedabad grew into an important textile centre at the turn of the century, and was often described as the "Manchester of the east".

Streets have been sold for a song when a community decides they are unsafe

Hindus and Moslems shared a common culture, especially since most of the Moslem population were converted from Hinduism three centuries ago. The mill owners and cloth traders were traditionally Hindus, while the textile workers were Moslem.

The late 1970s and early 1980s saw a boom in the industrial growth of the city. Though the cotton mills were facing a recession, other large industrial houses were attracted to the city because of its spirit of enterprise. Large drug companies such as Torrent Pharmaceuticals and Cadila were among those which decided to set up business there.

But many middle-class dreams were shattered in 1985, when riots broke out against the reservation of places for the underprivileged in educational institutions. This agitation was given a communal twist as there were many Moslems among the disadvantaged, since they were the poorer community.

The right-wing Hindu Bharatiya Janata Party (BJP), which had very little support in the traditionally Gandhian-socialist stronghold (Mahatma Gandhi was from Gujarat), suddenly found a political issue to establish a base. The BJP has had a phenomenal rise in the state, and is likely to win power there in the next elections.

Mr E.A. Khan, a retired bureaucrat, decided to move from his home state, Uttar Pradesh, to Ahmedabad. He had been posted there for 10 years in the 1970s, and testifies to the city's dramatic change for the worse. "When I moved back here a few years ago, there was a distinct polarisation between members of the two communities," he says. "I found it difficult to find a landlord to rent a house to a Moslem, which was most distressing."

Ahmedabad, with its population of nearly 4m and an area which has over the years expanded to 280 square kilometres, is "an overgrown village," says Mr Doshi, an architect. "Social tensions are often the root cause of riots, and if people are herded together like they have been in the walled city, the proximity will only create deep chasms between them, which is what has happened. Then all differences are accentuated, and religious differences are always the easiest to erupt."

A Moslem boy with a broken arm, among refugees fleeing from communal rioting in Ahmedabad

Real estate in Ahmedabad is dependent on the communal colour of an area. Entire streets have sometimes been sold for a song when one community decides that it is too dangerous to live in a particular place, and has moved to a safer part of town.

The construction industry, which is usually booming thanks to Ahmedabad's *nouveaux riches* businessmen and diamond merchants, collapses when there is a riot or long days of curfew. In July 1992, 25 people lost their lives after communal tensions led to yet another bloody riot. And when a mosque was destroyed in Ayodhya in December last year, Ahmedabad was badly hit with lengthy curfews and at least 50 people dead.

Many Moslems have moved to the Gulf countries for jobs, since fewer and fewer Moslems are being employed by Hindu factory owners. Unemployed youth of both communities, however, find ready work in the large Mafia which controls the bootlegging trade (Gujarat is India's only "dry" state, where prohibition is still – loosely – enforced).

The rise of the BJP and the upsurge of Hindu nationalism in the city will only make things worse.

Across the subcontinent, regional conflicts strain the republic's integrity, says **Shiraz Sidhva**

Delhi rules with carrot and stick

THE tenuous nationalism which binds the multi-cultural Republic of India is constantly threatened by regional strife.

Since it became independent 45 years ago, it has faced all-out separatist insurgencies in the north-eastern state of Assam (since 1979), Punjab (since the early 1980s), and in Kashmir (since December 1989).

Though militancy has been crushed in Punjab and peace has returned to the state after a bloody decade, the unrest in Kashmir shows no signs of subsiding, and Assam threatens to flare up again.

"India, with all its plurality and diversity, has been most successful in dealing with regional conflicts," says Mr BG Verghese, an eminent journalist and research professor at the Centre for Policy Research in New Delhi. "Historically, traditionally and constitutionally, India's approach has been one of accommodation, not liquidity."

The ruling Congress (I) party, which has had an almost uninterrupted monopoly of power in New Delhi since Independence, has in effect become the Centre. Critics of the Congress claim that most regional conflicts, including Kashmir, Punjab and Assam, are the Congress's own creations, which, like the proverbial chickens, are coming home to roost.

"Kashmir, Punjab, Assam each have their own peculiarities, but what typifies them is that they are all the results of the Congress (I)'s wrong policies," admits a senior party MP. "The centre has repeatedly been tempted to play the all-powerful boss of the states, and has not hesitated to be ruthless when it has found it necessary to crush regional aspirations, especially political ones."

The Congress believes that it governs with a light hand and only uses force to defend internal security and national sovereignty. However, force has been used all too frequently to quell insurgencies.

"A lot of the trouble is a product of our own follies and political failures," admits Mr Verghese. "But part of the Indian genius has been to reconcile so many social, cultural, ethnic and religious identities."

India's first prime minister, Jawaharlal Nehru, unlike his daughter Indira, and his grandson Rajiv Gandhi, did not live to see any serious regional tensions erupt in the country.

Those who framed the Indian constitution allowed for dissension within specified limits. The trauma of partition between India and Moslem Pakistan was still too fresh, the states were in the process of being constituted, and it was too early to gauge how Centre-state relations would evolve.

Though there have been periodic separatist uprisings in the north-east and Kashmir since 1947, India's first regional conflict was in the early 1960s, when the Dravida movement, an anti-upper caste social reform campaign in the southern state of Tamil Nadu, demanded a separate Dravida state. But Nehru initiated a compromise by 1962, and the party antered the electoral mainstream to wrest power in 1967.

The first real jolt to independent India's integrity came in the 1970s, with a full-fledged insurgency arupting in the north-eastern states of Assam, Arunachal Pradesh, Meghalaya, Mizoram, Tripura and Nagaland. These states, carved out of the old Assam province between 1963 and 1986, were politically integrated with tha rest of the country, but were geographically, culturally and emotionally remote.

Since becoming independent in 1947, India has been faced by full-scale separatist rebellions in Assam, the Punjab and Kashmir. Of the three, only the Punjab is for the time being quiescent

In 1979, Assamese nationalists formed the United Liberation Front of Asom (ULFA). Backed by Naga and Kachin guerrillas it opted for a full-scale armed insurgency, which has fluctuated wildly, and has still not subsided.

Punjab has witnessed one of the bloodiest revolts. Here, the origins of the conflict are not economic, but stem from a power struggle between local politicians of the state's majority Sikh community and politicians at the centre, who are eager to control the resources of one of India's richest states.

A political movement for more autonomy started by Sikh leaders in the early 1980s turned violent when it failed to achieve its goal by peaceful means. Mrs Gandhi's government responded with a series of blunders. The worst was Operation Bluestar in June 1984, in which the Indian army stormed the holiest Sikh shrine, the Golden Temple at Amritsar, which militants had turned into a fortress.

Thousands died in the ensuing violence and the militants' demand for Khalistan, a separate Sikh state, iotensified. Mrs Gandhi paid heavily for her attempts to establish political supremacy over the Punjab militancy. She was killed by her Sikh bodyguards on October 30 1984. A fragile peace has returned to Punjab, but experts fear the crisis could erupt again.

In Kashmir, a Punjab-style solution to an armed insurgeocy which has the support of the entire local population has failed to restore peace. It has only alienated the people further.

Mr Rajesh Pilot, Minister of State for Home Affairs in charge of internal security, is trying – so far with little success – to initiate a political process in Kashmir. He says that the government does not believe in using force unless it is absolutely necessary. "What we try to do is face the reality, provide opportunities for economic and social development, and help militants or aggrieved people to enter the political mainstream." India's characteristic response to secessionist uprisings has been to throw in the army and the paramilitary, ordering full-scale crackdowns which often involve the repression and torture.

The people of Assam lived with an occupying army for more than 20 years, and thousands of villages experienced search-and-arrest operations and human rights infringemeots. The Assamese wera relieved when the Centre imposed President's rule on November 27, 1990, under Articla 356 of the Indian Constitution. Assam was now under the direct control of New Delhi, and military operations were called off on April 20 1991.

But the army was redeployed on September 14 that year, under the code name "Operation Rhino". Assam was policed by about 200,000 troops and paramilitaries until January 1992 wheo a oegotiated settlement with the ULFA was reached. But some Assam militants remain unhappy, and sporadic violence continues.

In Kashmir, the worst is not yet over. The government plans to send Mr KPS Gill, the police chief who crushed militancy in Punjab, to tackle the Kashmir militants.

But experts fear that a Punjab-style show of force will not reap results and excesses by the armed forces have completely alienated the Kashmiri people.

The Indian government uses both the stick and the carrot. The low-level war raging in the Vale of Kashmir has not prevented it from offering employment to those willing to eschew violeoce, helping traders to sell their goods through the rest of the country, and ensuring that food and other essential supplies continue to reach the Kashmiris.

"Our main approach has been to ensure thet the common man is not hit by our operations to flush out militants," says Mr Pilot. But the governmeut has been unable to control parts of its 250,000-strong security forces and the violence has so far claimed more than 10,000 lives.

Mrs Gandhi used to blame "the foreign hand" for all India's troubles. Pakistan across the border has been India's favourite whipping boy and not without reason. But, as Mr George Fernandes, MP, puts it: "Pakistan may be fishing in the troubled waters of Punjab and Kashmir, but it is India who has created those troubled waters."

■ Tourism and tension in the Vale of Kashmir

Beautiful waters that have turned to blood

UNTIL recently, the legendary beauty of Kashmir in northern India attracted tourists by the plane-load, writes **SHIRAZ SIDHVA**.

In 1989, Indian Airlines ran 13 flights a day into the state. Now there is one flight a day.

It brings only a few tourists, mostly back-packers of the kind who used to come by bus from Jammu, or trekkers heading for the Himalayan kingdom of Ladakh.

Most of the tourists are aware of the conflict in Kashmir, where the Moslem population has long chafed against Indian rule.

But they cannot resist the famed attractions of the area including the gracious houseboats that can be rented for next to nothing on the placid lakes near Srinagar.

"We wanted to see for ourselves whether Kashmir is the lost paradise the newspapers say it is," says Carlo, an Italian architect, during the flight to Kashmir. "I decided that if we didn't visit Kashmir now, we may never get there. Is it really as bad as they say?"

If you are not put off by sporadic shooting, explosions, curfews, and the presence of thousands of Kalashnikov-toting soldiers and militia-men, then Kashmir is still a lovely destination for a holiday.

On all sides there is the awesome grandeur of the Himalayas. The people are as friendly as ever, and room prices have remained steady for three years.

But as soon as you land, you know you are in a war zone, where there are daily clashes fought armed separatists and units of the estimated quarter of a million armed forces.

Four years of death and decay are symbolised by what has happened at the Dal Lake.

Once a haven for tourists all the year round, its quiet waters are now choked with weeds. In a phenomenon still unexplained by scientists, the colour of the lake changed two years ago from a muddy green to red.

"The lake mirrors the rivers of blood that are flowing in the Valley," says Ahmed Jaan, a wizened old man who for 50 years has sailed his *shikara* on these waters.

Today, his life is as desolate as the houseboats with their vacant signboards.

The intricately carved facades of these floating homes bear quaint names, like Queen of Sheba, Paris Beauty and Cherry Ripe.

But their timbers are rotting, and the rooms, with their chandeliers and exquisite carpets, are musty from neglect.

At Mr Butt's Clairmont houseboat on the Nagin lake, the visitor's book tells of good times that may never return. Beatle George Harrison has been here; so have hundreds of other celebrities from around the world.

The crowds that thronged the Dal Lake boulevard have been replaced by soldiers with sten guns, the golf course is overgrown and abandoned, and the grand imperial Residence that became the Oberoi Hotel now houses officers of the paramilitary forces.

Groups of women squat on the pavement outside the interrogation centre waiting sometimes for hours to see their sons, brothers or fathers who have been picked up, sometimes, without reason, for questioning. There have been over 150 deaths in custody this year.

Stung by international complaints about human rights abuse earlier this year, the government is trying to make its security forces more accountable.

But this is not easy. Most of the soldiers who are fighting a well armed guerrilla enemy were trained for a conventional conflict rather than to face 10 year-old boys who lob hand-grenades before running into their mothers' arms.

The Kashmiris have been alienated from the security forces after humiliating and sometimes brutal house searches.

The troops have for decades beeo instilled with hatred of the enemy (read Pakistan). For them, every Kashmiri in the Valley is anti-national, and therefore, Pakistani.

Women and children have been killed or wounded io crossfire betweeo Kashmiri militants and the armed forces.

The citizenry of Srinagar retreat indoors long before nightfall, hoping that the next day will dawn without a search operation.

Only stray dogs keep the soldiers company on their long night vigil.

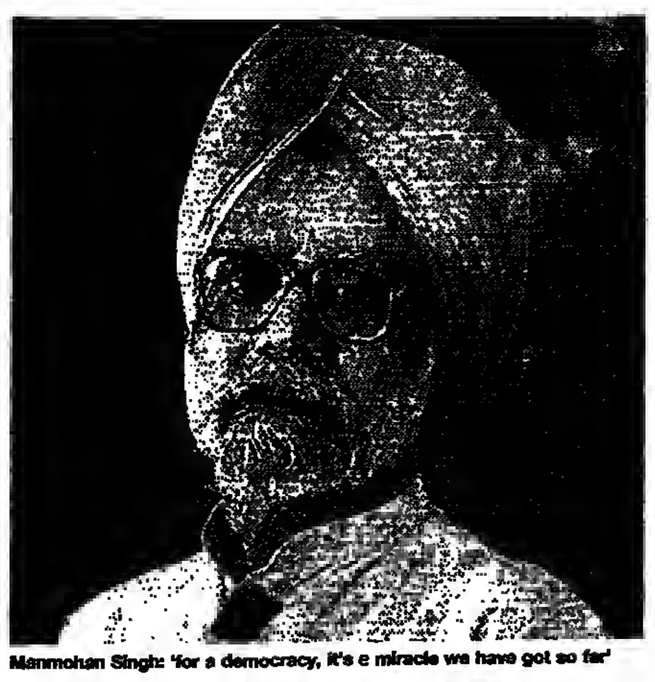
There is no solution in sight.

"The Indian government has pushed us to the wall, and now, at the point of a gun, they want us to swear loyalty to the nation," says a well-to-do Srinagar trader.

"I never thought that there would come a stage when I would support the movement that some people have been advocating for over 40 years.

"But with the daily dose of humiliation and harassment from the Indian forces, I cannot see how we can turn back on this road we have taken."

Kashmiris suspected of planning to go to Pakistan for military training are arrested in Srinagar



Manmohan Singh: 'for a democracy, it's a miracle we have got so far'

■ Interview: MANMOHAN SINGH

State of the economy

FINANCE Minister Dr Manmohan Singh replies to questions put to him by Stefan Wagstyl:

QUESTION: How do you assess the current performance of the Indian economy?

DR SINGH: The performance so far has been in line with our expectations. The only slightly disappointing factor has been that the upsurge in industrial production is not as good as we would like it. But export performance has been very good. Exports were up by nearly 28 per cent in the first four months of the year (the financial year, starting in April). That is most encouraging.

If exports continue to do well and the monsoon is good then it will help industrial production. But quite honestly, there's a problem because industries such as steel and cement are partly dependent on demand from the public sector. And public sector demand (because of efforts to control public spending) is not rising as fast as we would like.

THE fiscal deficit seems to be expanding above the targets that you set. Are you concerned about it?

For the time being the fiscal system is not behaving in the manner we would like. The deficit could be 5.7 per cent or 5.8 per cent of the economy if we don't make any corrections. As of now we would overshoot (our target of 4.7 per cent). But we can take action once these elections are out of the way. [Elections to be held in four states where state assemblies were suspended and central rule imposed after the sacking of the Ayodhya mosque.]

MIGHT you act by cutting subsidies for publicly-distributed food?

Fortunately the macroeconomic situation is good. We could reduce subsidies by selling [government-held] food stocks in the open market. We are considering this. But we cannot act until after the state elections because for the moment the politicians are worried about the fall-out of any action we might take. I don't think the Indian people would mind but politicians everywhere have this preoccupation with the short-term. They believe that if you care for the short-term, the long term will take care of itself. That's a problem of all democratic political systems. After the elections, we won't be able to recover all the lost ground [on the fiscal deficit] but we can act.

WILL the increase in the deficit create difficulties with either the International Monetary Fund or the World Bank, which are monitoring the Indian economy?

I don't think it will create problems. The significance of the fiscal deficit is its effect on inflation and the balance of payments. On both of these our performance is very good. Our export performance is impressive. Also, [the IMF and the Bank] recognise that we are working with the reality of a vigorous democracy. No other fact is more important than this. Certainly today there's more support for the programme than there was when we started. But even in countries where central leadership is strong, reforms run into difficulties. In India, on structural reform what we have said we have done. Given the democratic nature of our political system, it's a miracle we have got this far.

'The fiscal deficit is higher but it should not create problems with the IMF or the World Bank'

DOES India still require financial support from the International Monetary Fund?

Our foreign exchange reserves are high, about $7.2bn or $7.3bn. That is higher than we expected. So we have no immediate need. But we are interested in a medium term programme. The question is when we tie it up. Probably after the [February] Budget.

HOW can India move public resources from subsidies, such as those paid to state-owned enterprises, to meeting basic needs such as education and health?

We have reduced subsidies very substantially. We reduced spending on development in the last two years but this year we have increased it. We are trying to make good the lost momentum of the last two years.

INDIA has partly liberalised imports and exports in the past two years. What are your plans for further trade reform?

A strong open [world] trading system would greatly help the efforts of Indian industry. But if India unilaterally disarms when the rest of the world is becoming more protectionist then what would be the result? That's a worry. Nevertheless, we are still committed to further tariff reform. We have to carry the public with us. It will be easier as industry gains confidence [about competing in world markets].

WHAT changes can we expect in the next few months?

We are opening up financial services to foreign companies. I expect a committee examining the insurance industry to report soon. There's a need for change there. We have a lot of work to do with restructuring banks. Private companies are interested in starting banks but they are still talking about this to the Reserve Bank of India. In all these areas we will make progress.

WHAT possibility is there that the government will start to privatise the country's large, and often loss-making, public enterprises?

We have to appreciate that our party [Congress (I)] has been the ruling party for the past 46 years. It is a party with a [socialist-inclined] ideology. It takes time to change the thinking. The government is now committed to privatising power distribution in Delhi itself. Telecommunications [a state monopoly] has been opened up. We hope for more progress in the next two years. We can privatise if it does not lead to the loss of jobs. That is the limit to reform in a country like ours. It certainly restricts the pace of change. Two things matter to ordinary people. One is food prices; the other trade unions.

BUT surely, organised labour accounts for only a small proportion of Indian workers?

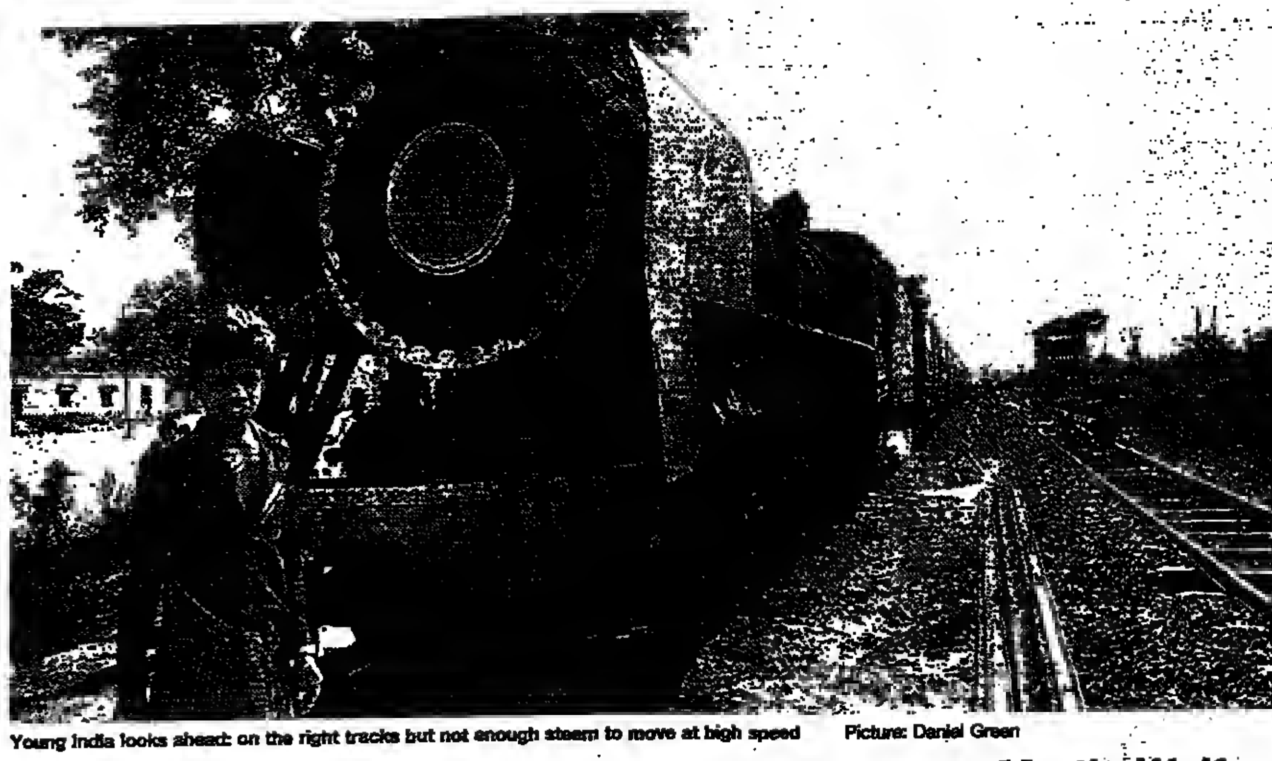
But we can't mobilise the other 95 per cent. Trade unions are well organised and well entrenched. In the cities they are powerful. If you take them on head-on you risk having the reforms derailed altogether. You have to take every step taking account of what can be done. Tactics have to be sensitive to the need of the moment.

SO is the pace of reform slowing?

I would say financial sector reforms are making good progress. Trade sector reforms also. If we can control inflation and no jobs are lost we can deal with the other things (including reform of public sector enterprise.) In the last two years we have decisively de-ideologised the debate over reform (and so made progress). But if I create inflation, or increase the fiscal deficit or create a very substantial amount of unemployment then I am in trouble. People have to be confident of their jobs and food and prices.

HAVE political events such as the sacking of the Ayodhya mosque diverted attention from reform?

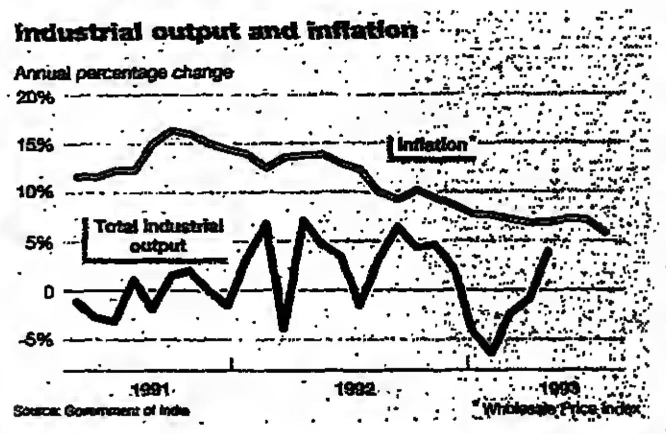
We presented the budget after Ayodhya. We carried forward the reform process. The prime minister is committed to reform. But the economy doesn't function in a political vacuum. So time spent on Ayodhya and other things has diverted attention. Also if we had not had the financial scam [last year's scandal in the Bombay securities market], the time could have been spent more productively.

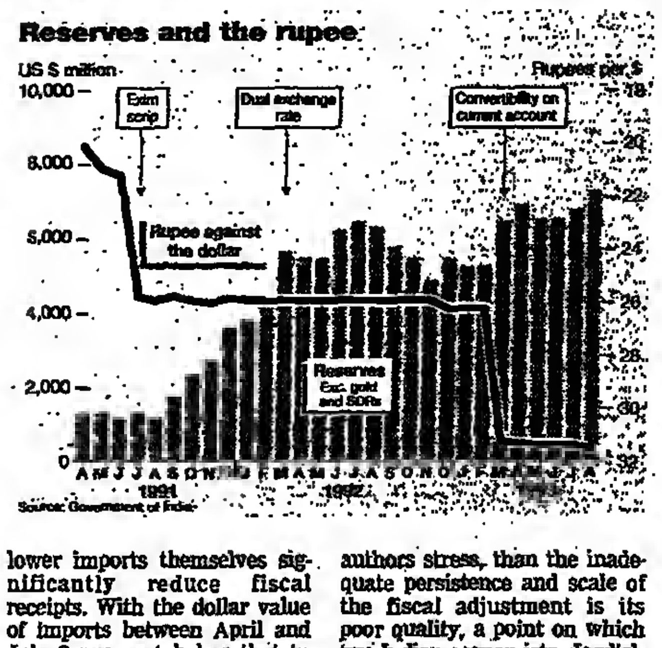


Young India looks ahead: on the right tracks but not enough steam to move at high speed Picture: Daniel Green

India needs to retain economic stability, argues Martin Wolf

Preconditions of reform





STABILISATION should not be confused with structural reform. But the two are intimately related. Losses of public sector enterprises and subsidies, both causes of economic waste, contributed directly to India's fiscal difficulties. Similarly, distortion-induced economic inefficiency and consequent low growth contributed indirectly to those difficulties.

Yet another link is the balance of payments crisis of 1991, largely the product of fiscal mismanagement, but also the starting point for the present reforms. Now, argues the finance minister, Dr Manmohan Singh, the reform programme could survive almost anything, except inflation and yet another balance of payments crisis. Stability regained must, he insists, be retained.

Not long ago India's historic record of stability appeared lost. In June 1991, it was on the verge of default on its external debt, foreign exchange reserves were equivalent to two weeks of imports and the annual rate of wholesale price inflation had reached the intolerable level of nearly 17 per cent. Moreover, in the financial year ending in March 1991, the central government's gross fiscal deficit was 8.4 per cent of gross domestic product, while the current account deficit was equivalent to 2.6 per cent of GDP and a third of exports of goods and non-factor services.

The subsequent two and a quarter years have seen a remarkable change. Foreign exchange reserves are up from $1.1bn to $7.3bn *(see chart)*; the dollar value of exports between April and July of 1993 was 27 per cent greater than in the same period of last year; foreign investors are showing increasing interest in India; and inflation is down to a little over 6 per cent. In addition, the central government's fiscal deficit was 5.2 per cent of GDP in the latest financial year, while the current account deficit was a third smaller than in 1990-91, if up on 1991-92.

"With all the problems we have had," claims Dr Singh, "it is a miracle the programme is still intact." For all that, success has not been unalloyed.

One virtually inevitable problem has been recession, with growth of GDP declining to 1.2 per cent in 1991-92. But economic growth recovered fairly quickly, to about 4.2 per cent in 1992-93, with a further increase of about 5 per cent expected this year. Industrial output also stagnated between 1990-91 and 1991-92, before mounting a modest recovery. Unfortunately, industrial output was then adversely affected by the disturbances at the end of 1992, rising above the level attained in the same month of the previous year only in May 1993.

The decline in economic growth was modest in the circumstances. It was also inevitable. Nevertheless, it has tended to undermine one of the government's most important achievements: fiscal consolidation. The finance minister had planned a central budget deficit of 4.7 per cent of GDP this financial year. He now admits that the outcome, on current trends, is likely to be at least one percentage point higher.

Industrial recessions reduce tax revenues. Since import duties generate close to 20 per cent of total fiscal revenue, lower imports themselves significantly reduce fiscal receipts. With the dollar value of imports between April and July 3 per cent below that in the corresponding period of the previous year, despite the abolition of foreign exchange and import controls, the consequences for revenue have been unfavourable.

Excessive expenditures, particularly on subsidies, are also a problem. At present, central budgetary subsidies – budgeted to be 1.1 per cent of GDP this financial year, down from 2.3 per cent in 1990-91 – are bound to overshoot. This would be true even if a fiscal correction were to be made immediately after the four state elections expected in November and December.

Any long-lasting fiscal slippage would be dangerous, perhaps not immediately in current recessionary conditions, but in the longer term. Understandably, the governor of the Reserve Bank of India, Dr C Rangarajan, has expressed serious concern to the government over expansion of net RBI credit to the government, which is running at almost three times the budgeted level for the current financial year. This is not just potentially inflationary. So long as the government runs large and persistent fiscal deficits, it will find it difficult to eschew forced borrowing from the banks and impossible to continue paying anything close to market real rates of interest.

In the 1980s, it should be recalled, the central government fiscal deficit was between 7 and 9 per cent of GDP in every year from 1984-85 to 1990-91. Over the same period, the ratio of total government debt to GDP rose from 51 to 66 per cent, while the ratio of external debt to GDP rose from 16 to 29 per cent. The crisis of 1991 was the virtually inevitable result. That crisis did at least prove the trigger for present efforts at reform. Now, by contrast, persistently large fiscal deficits would be the greatest single threat to reform.

Vijay Joshi and I.M.D. Little of Oxford University argue, on admittedly quite conservative assumptions, that a sustainable position for India would be one with a current account deficit of less than 1 per cent of GDP and a small central government surplus, excluding net interest payments.(1) The latter would, in turn, imply an overall central government fiscal deficit of about 3 per cent of GDP, roughly half of that now expected for 1993-94 and below even the budgeted level for this year.

Still more important, these authors stress, than the inadequate persistence and scale of the fiscal adjustment is its poor quality, a point on which two Indian economists, Jagdish Bhagwati and T.N. Srinivasan, agree in a paper they have prepared at the request of the finance minister.(2) Half or more of the reduction in the fiscal deficit has come from a decline in capital expenditure, itself an important reason for the persistence of the industrial recession.

A squeeze on public investment, particularly in infrastructure, threatens future growth of the economy. That danger is exacerbated by curbs on loans to important public sector enterprises, which are simultaneously restricted in their ability to raise funds in the capital market by the government's unwillingness to push for outright privatisation.

At the same time, inadequate efforts have been made to rein in wages paid by government, whose share in GDP rose by one and a half percentage points in the 1980s. Equally important has been the failure to eliminate most of the remaining subsidies, particularly on fertilisers (budgeted at 0.5 per cent of GDP in 1993-94). Even food subsidies (budgeted at 0.4 per cent of GDP, though likely to prove larger this year) could be sharply reduced, without adversely affecting the poor, since, as the World Bank rightly notes, "the public distribution system is not targeted at the poor to any significant extent".

Generally, cost recovery needs to be a central element in all government programmes, both at the centre and state levels. The failure to charge adequately is neither economically efficient nor does it benefit the poor, who are rarely able to obtain scarce subsidised inputs.

Tax reform is important for both structural adjustment and stabilisation. Present plans for reform call for lower import duties, for example. This may not lower revenue if the ratio of trade to GDP grows and most duty exemptions are eliminated. However, less distorting forms of revenue will be needed.

Centre-state fiscal relations also require reform. Change here is particularly important because revenue from customs tariffs accrues solely to the centre under the Indian constitution, while revenue from personal income tax or excise duties are shared with the states. The Chelliah Report on tax reform has recommended, in response, that the central and state governments move from sharing specific taxes to general revenue sharing.(3)

Tax reform does matter. So does sustaining the overall tax effort. But, as the World Bank notes, the tax to GDP ratio in India, at 16.9 per cent in the second half of the 1980s, compares well with that in other low income countries. Fiscal stabilisation cannot be achieved by additional revenue raising alone.

Thus, the finance ministry's agenda, which includes reduction and redirection of subsidies, higher administered prices, limiting budgetary allocations to public sector undertakings and generally tighter expenditure control, apart from tax reform, should be implemented in full.(4) Above all, inevitably scarce budgetary resources must be redirected towards development and welfare expenditures that only the public sector can undertake and away from finance of public sector undertakings and indiscriminate subsidies. Privatisation is vital here and would also help lower the present excessively high levels of public sector debt.

The intersection between the twin causes of stabilisation and structural reform falls precisely where the public sector colossus now sits. Failing a redrawing of the role of the public sector, it may well prove impossible to sustain progress towards fiscal stabilisation. Without such stabilisation, the RBI's role as central bank will be subverted, inflation will no longer remain in control, the financial system will not be restructured and, ultimately, reform will founder.

Stabilisation is not the same thing as structural reform. But a rethinking of the role of the Indian public sector is unquestionably a precondition for both.

(1) Vijay Joshi and I.M.D. Little, "Macroeconomic Stabilisation in India, 1991-1993 and Beyond," paper for conference on "India – the Future of the Reforms", held at Merton College, Oxford, June 27-29 1993. (2) Jagdish N. Bhagwati and T.N. Srinivasan, India's Economic Reforms, report prepared at the invitation of the Finance Minister, June 1993. (3) Tax Reforms Committee chaired by Raja J. Chelliah, Interim and Final Reports (Delhi: Ministry of Finance, December 1991 and January 1993). (4) Economic Reforms: Two Years After and the Task Ahead, Discussion Paper (Delhi: Ministry of Finance, 1993).

सत्यमेव जयते

THE INDIA ADVANTAGE

"Globalisation well underway!"

"The process of economic reforms was pursued steadily throughout 1992, thereby enabling the economy to stabilize. Simultaneously, a series of steps have been taken to integrate India into the global economy. We are committed to the process of further liberalisation and an open market."

"India's record on the security of foreign investments is unblemished. We welcome foreign direct investment which we expect will contribute to the modernisation and efficiency of Indian industry. This will, in turn, enable it to compete effectively in global markets."

P.V. Narasimha Rao
Prime Minister of India

Economic Reforms in India Highlights

■ Fiscal consolidation continued over two years. Central Government fiscal deficit brought down from 8.4% in 1990-91 to 6.5% of GDP in 1992-93. Targeted at 4.7% of GDP in 1993-94.

■ Tax structure simplified and rationalised with reduction of exemptions and abolition of wealth tax on all productive assets; tax base widened through introduction of presumptive taxation and strengthening of tax administration; medium-term goal is to introduce Value Added Tax.

■ Restrictive industrial licensing abolished; areas reserved for public sector reduced from eighteen to six and separate permission for large business (MRTP) houses abolished.

■ Access to foreign technology made easier; automatic approval for foreign direct investment with up to 51% of foreign equity ownership; procedures streamlined with the setting up of the Foreign Promotion Investment Board. Foreign investment approvals have touched $2.6 billion in the post August 1991 period; necessary amendments made in Foreign Exchange Regulation Act; India has signed the Multilateral Investment Guarantee Agreement (MIGA).

■ Trade and Exchange rate system liberalised. Exchange rate unified much ahead of announced schedule; QRs on almost all capital goods and raw material imports eliminated; maximum import duty reduced from 150% to 85% and duty on [illegible] to 10%; restrictions on exports also substantially removed. As a result of these measures, export growth has averaged 20% in the first quarter of 1993-94.

■ Financial Sector Reform. Pre-emption of private savings reduced through phased reduction in statutory liquidity and cash reserve requirements. Over the next three years average SLR to be brought down to 25%. Interest rate structure rationalised and simplified with deposit rate deregulated subject to a ceiling rate and the number of lending rates reduced to three. Auction of Treasury Bills started. New internationally accepted Basle Committee norms of capital adequacy and provisioning introduced and banks allowed to access the capital market to meet provisioning requirements. New private sector banks allowed.

■ Corporate capital issues decontrolled and independent regulatory body (SEBI) set up. Foreign institutional investors allowed to invest in the capital market. A National Stock Exchange with a Central Depository being set up.

■ Non-plan budgetary support to public sector enterprises being phased out. Partial divestment of equity in Public Sector Enterprises (PSEs) to introduce a greater sense of accountability. PSEs allowed to form joint ventures.

A COUNTRY WITH STIMULATING COMPETITIVE ADVANTAGES. A SPRINGBOARD TO ASIA. A 900-MILLION MEGAMARKET. A SOURCING OPPORTUNITY. A LEGION OF TECHNOCRATS.

India: Re-engineered & Redefined for the Global Business Player

Priority-directed approach

Central to the concept of the economic re-engineering in India is the fact that it addresses the priority issues being encountered by the country and the global investors.

The country needs to focus on core sector infrastructure development and its continuous modernisation. Inherent in this prioritisation is the opportunity for the global investor to maximise returns by investing in sectors which offer substantially large markets and consumers.

The industries designated as priority thus offer a mutually beneficial interfacing of the needs of an emerging 'megamarket' and those of the investors. And the government's role in this interplay of multidimensional opportunities now stands redefined as that of the facilitator.

Result-driven approach

India is witnessing a new wave of global investment interest in the country in response to the new economic liberalisation policies that were announced in 1991 by the Government. Investment proposals worth $3 billion have been approved ever since!

The point to be noted is that most of the investments approved are in the sectors defined as PRIORITY such as power generation, petroleum refining, electronics and several sectors with substantial export potential.

Investor-oriented approach

Investment policies have been restructured to enable the global investor to exercise *managerial control over the investment by providing for automatic approval for 51% equity in the 34 priority industries subject only to an* automatic permission from the Reserve Bank of India.

A *Foreign Investment Promotion Board* (FIPB) has been specially constituted to ensure expeditious governmental approval for investment above 51% equity, or in non-priority areas.

The foreign investor can look forward to equity up to 100% in export oriented units, power sector, electronics and software technology parks. Units in the Export Processing Zones (EPZs) and those which are 100% Export Oriented Units (EOUs) similarly can have up to 100% foreign equity, subject to specified norms. In other sectors, the approval would depend on the merits of the proposal.

The interesting fact is that the sectors identified and shortlisted as PRIORITY offer the investor profit-maximisation opportunities since they have been centred around several stimuli programmes. These range from complete tax exemption on profits from exports of goods to tax holidays on profits from new power projects for the first five years of operation.

Response-motivated approach

To facilitate quick action, a strategic advantage for the investor, the existing systems have been restructured to respond to the needs of the global business strategist. Take the case of industrial licensing which was needed earlier, and was a time-consuming process. This has now been abolished for all except a select list of hazardous and environmentally-sensitive industries.

Similarly, the separate permissions needed by MRTP (Monopolies & Restrictive Trade Practices) houses for investment and expansion, have been abolished by an amendment of the relevant Act.

The list of industries reserved for the public sector has been reduced. In addition, private sector participation is being allowed on a case-by-case basis, even in industries in the list reserved for the public sector.

Market-led approach

To facilitate the liberalisation programme, import controls through licensing have been virtually removed. Except for consumer goods, almost all items of capital goods, raw material, intermediates, etc. can be freely imported subject only to payment of customs duties. Import duties have also been reduced in stages.

The liberalisation process has resulted in the freeing of the exchange rate, and now the exchange rate of the rupee is determined by demand and supply *conditions in the foreign exchange markets. A remarkable feature of the* strength of the Indian economy is that the market-determined exchange rate has remained fairly stable.

Irreversible approach

India's economic liberalization programme is being constantly monitored for maximum impact. Right from macro *issues – reducing the level of fiscal deficit,* checking the rate of inflation or improving the economic growth rate – to micro-level issues dealing with specific product markets.

The fact remains that this process of re-engineering and liberalisation is irreversible, as the economic reforms have basically followed a political consensus that has developed over the period of two years through democratic institutions.

THE INDIAN-MARKET ADVANTAGE

900 million people form an emerging 'megamarket' in India for a whole range of products and services

THE INDIA ADVANTAGE

THE SOURCING ADVANTAGE

The opportunity to source components/finished goods for global price competitiveness

THE SPRINGBOARD-TO-THE-ASIAN-MEGAMARKET ADVANTAGE

The opportunity to set up a manufacturing base in India to tap the Asian markets

"It's a new India!"

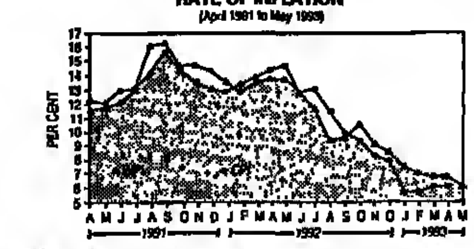
"A new policy towards foreign investment has been an integral part of our strategy of modernising the economy, and establishing global linkages which will be of critical importance in the emerging world economy."

Manmohan Singh
Finance Minister of India

The present Government took office in June 1991. Within a month, the Government presented the first budget.

The budget brought down the level of fiscal deficit. The rate of growth of money supply was checked. The exchange rate of the rupee was adjusted downwards to a level which could be sustained in the light of the country's balance of payments situation and the state of the domestic economy. Exceptional financing was mobilized both from multilateral and bilateral sources to relieve the immediate pressures on the Balance of Payments and to build up foreign exchange reserves.

FIGURE 1
RATE OF INFLATION
(April 1991 to May 1993)



The annual rate of inflation, which had peaked at nearly 17% in August 1991 came down steadily to 7% by the end of March, 1993 (Table 1 and Figure 1), and is around 6% at present.

Foreign currency reserves, which had fallen to just above $1 billion recovered swiftly, and stood at over $6.4 billion at the end of March, 1993 (Figure 2 and Table 1) and are around US $ 7.2 billion now.

Overall economic growth which had dipped to 1.2% in 1991-92, recovered to about 4% for the year ending March, 1993 (Table 1).

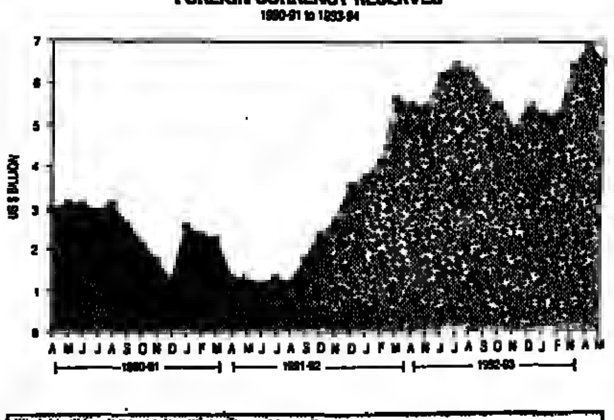
Industrial growth showed significant recovery in the last nine months of 1992, registering growth of about 4% over the corresponding period of 1991

Table 1: Macro-economic Indicators

	1989-90	1990-91	1991-92	1992-93	1993-94(P)
GDP Growth (at 1980-81 prices)	5.6	5.2	1.2*	4*	5
Inflation (end-year)	9.1	12.1	13.6	7.0	5.6
Money Supply (M3) Growth (percent p.a.)	19.4	15.1	18.5	15.0	12
Central Govt. Fiscal Deficit (percent of GDP)	7.9	8.4	6.0	5.6*	4.7
Imports ($ million) of which	21272	24872	19411	21726	24500
Oil	3768	6028	5364	6407	6800
Non-Oil	17504	18044	14047	15319	17900
[illegible]	16626	18142	17866	18421	21400
[illegible]	6927	7727	3169	5244*	3600
[illegible]	(2.5)	(2.6)	(1.3)	(2.2)	(1.3)
Foreign currency [illegible]	3675	3368	2236	5631	6434

* Estimated   P Projected

FIGURE 2
FOREIGN CURRENCY RESERVES
1990-91 to 1993-94

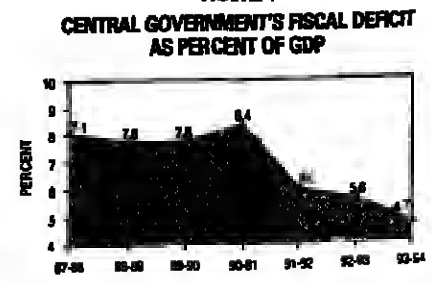


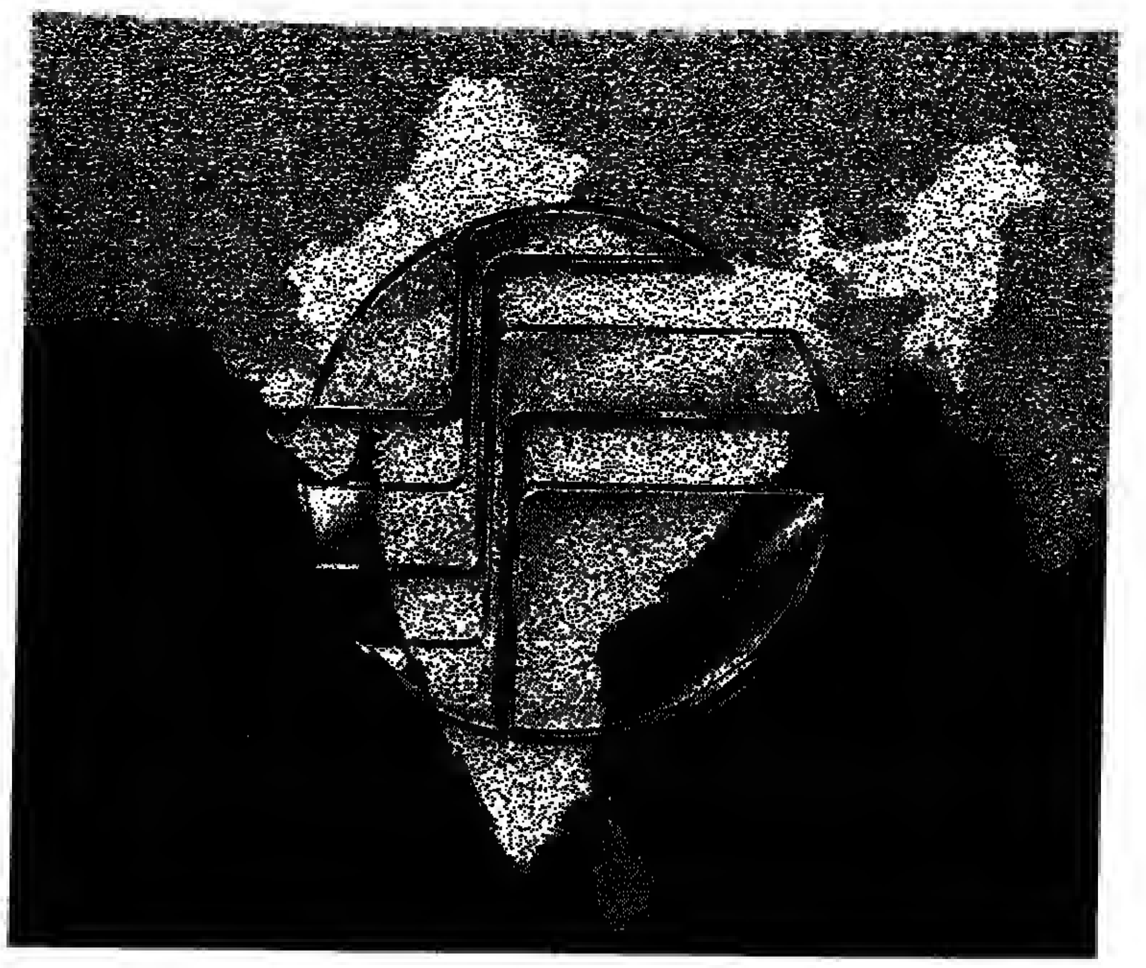
Correcting Fiscal Imbalances

A critical element in the reform package was the reversal of the trend of growing fiscal imbalances which had built up over the past several years (Fig 3).

The mid-term strategy of the Government included a programme of gradually reducing the fiscal deficit from 8.4% of GDP in the year ending March, 1991 to 6.5% in the succeeding year, ending March, 1992 and further to 5.0% in the year ending March, 1993. In the year ending March, 1992, the fiscal deficit reduction, to 6.0%, bettered the target. The process of fiscal consolidation is being continued further in the current fiscal year, with the fiscal deficit being targeted at 4.7% of GDP.

FIGURE 3
CENTRAL GOVERNMENT'S FISCAL DEFICIT AS PERCENT OF GDP





Martin Wolf on the pace and intensity of economic deregulation

There's no turning back

INDIA, it has sometimes been remarked, has potential: it will always have potential. The programme of deregulation that the present government embarked upon in July 1991 is designed to prove that wry comment wrong. With luck, it should do so.

India includes somes 30 per cent of the world's poorest people. It needs to grow far faster if it is to relieve that poverty. Amazingly, as one of India's most distinguished economists, Jagdish N. Bhagwati, points out in his recently published Radhakrishnan Lectures, "this thoroughly plausible statement can create immense controversy in India".(1)

That deregulation was not embraced more urgently before 1991 reflects partly such ideological attitudes, partly suspicion of foreigners and partly the resistance of powerful interests. Also important has been the ability of the Indian economy to keep chugging along. An economic crisis was needed if serious reform was to start. But only a systemic collapse would produce a total transformation. It was the former, not the latter, that was forthcoming.

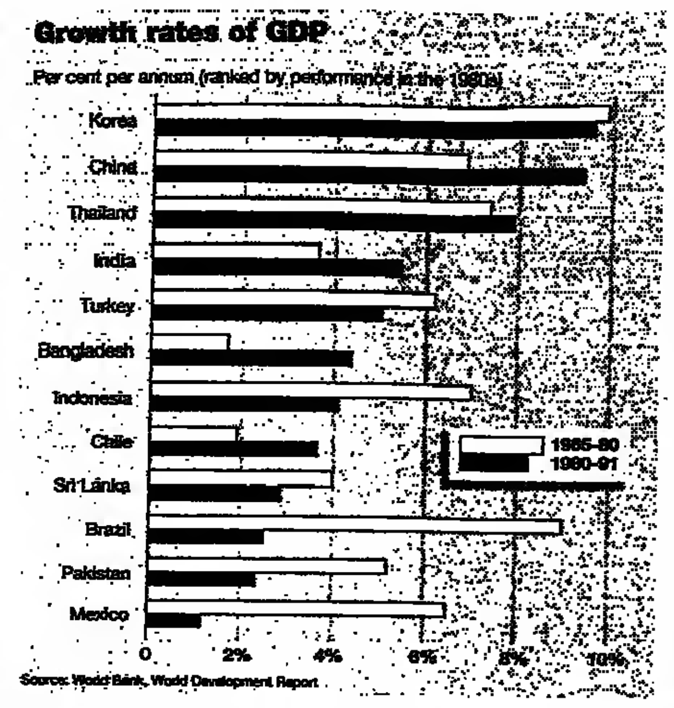
Under the "licence raj", businessmen had to ask permission from Delhi over what, where and how to produce. They had to ask permission over what they could import, what technology they could use and with whom they might collaborate. They had to ask permission over where to locate, when they could close and whom they could fire. Foreigners were generally precluded from majority ownership and so-called "large houses" from expansion. The public sector was strongly promoted, while the Indian economy was detached from the rest of the world.

Yet this was a planned economy only in name. It was really just a controlled economy. The man in Delhi was thought to know best. What he did, in fact, know best was how to stop things. In this system corruption was no accident. It was inevitable.

The nadir of Indian economic development was reached in the 1970s, also the heyday of the control system. The 1980s saw some liberalisation and, correspondingly, improvement in economic performance. At 5.4 per cent a year, India's average economic growth between 1980 and 1991 put its economy among the ranks of the more successful developing countries, though far behind leading East Asian exemplars *(see chart)*. These differences are significant. Even at the rate of growth of income per head achieved in the 1980s, India's income per head would double only every 22 years. At China's rate, it would double every nine.

The failure to achieve fast growth has been mainly caused by the inefficient use of resources. Though far behind levels achieved in leading east Asian countries, India's gross domestic savings rate in 1991,

Growth rates of GDP

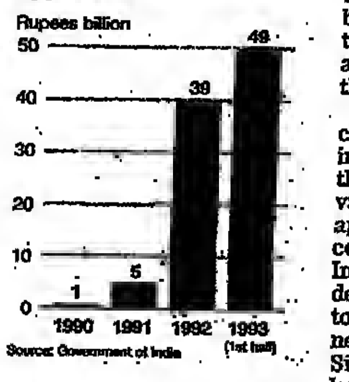


Source: World Bank, World Development Report

at 19 per cent, compared well with those in many parts of the world and was some six percentage points higher than 30 years before. But total factor productivity stagnated in the 1960s and 1970s, before growing at the more satisfactory rate of 2.8 per cent a year in the 1980s. More disturbingly, the productivity of India's scarce capital has been falling over the past 30 years.(2) The fundamental objective of deregulation is to secure a much better performance.

In industrial policy, many important changes have been already made, including the abolition of industrial licensing for all except a select list of hazardous and environmentally sensitive industries; abolition of the separate permission for expansion hitherto needed by the large companies covered by the Monopolies and Restrictive Trade Practices Act (MRTP); a reduction in the number of industries restricted to the public sector; and freer access to foreign technology. Similarly radical have been steps to liberalise controls on trade and foreign exchange.

Foreign collaboration approvals



Source: Government of India

Also important, if more cautious, have been changes in the treatment of hitherto suspect foreign investment. As the finance ministry has noted, "net foreign direct investment into China is estimated at over $5bn in 1992. By comparison, net foreign investment inflows into India during the late eighties and early 1990s were around $100m-$200m a year."(3) Approval of foreign holdings of up to 51 per cent of equity in a specified list of 34 priority industries has been made automatic, with case-by-case approval beyond that given by the specially constituted Foreign Investment Promotion Board (FIPB).

Procednres for Indian investment abroad have been streamlined. The Foreign Exchange Regulation Act has been amended to make it easier for companies with foreign equity to operate in India. To take just one example, it is now relatively easy for businessmen to obtain $5,000 for foreign travel, without a *per diem* limit. India has also signed the Multilateral Investment Guarantee Agency (MIGA).

Tax reform has begun: the marginal rate of income tax has been lowered to 40 per cent, the tax base has been broadened and excise duties have been simplified, while the level of import duties has been lowered and their structure simplified. A start has also been made on reforming the financial sector.

Cumulatively, these are big changes. That they are having an impact can be seen by the large increase in the value of foreign collaboration approvals *(see chart)*. The commercial director of Indian Airlines ascribes the decline in his business partly to the reduced need for businessmen to travel to Delhi. Similarly, major business houses have given up suites they long maintained in the best Delhi hotels, while many of those whose job was to help people obtain licences are now out of business.

The changes so far are also probably irreversible, except perhaps for the greater tolerance of foreign investment, to which important elements in the BJP object for nationalistic reasons. They should ensure a substantial improvement in economic efficiency and accelerated economic growth, as demand recovers. Nevertheless, these reforms will also create problems, some of which could inhibit further movement in the same direction.

One obstacle is the parlous state of parts of the public sector. But there is also a question mark against the future of many large private houses. So far pressure on them has been modest, partly because of the devaluation. But the development of private concerns has been distorted by the control regime: their technology is often outdated, their spending on research and development exiguous, the scale of their plants inadequate and their experience with marketing, rather than distribution, negligible. They are not, says a businessman, "learning organisation". Many are also now riven by conflicts within the families that control, rather than own, them.

Large houses are just one of the interests likely to resist further reform. Also important is the lower level of the bureaucracy, many politicians and organised labour, whose political importance far exceeds its modest weight in the labour force. The number of registered unemployed alone exceeds the number employed in the organised sector. Nevertheless, removal of restrictions on "exit" of businesses and laying off of workers remains the hottest of potatoes.

Even such obstacles to change are not absolute, as the success of many companies in securing voluntary retirement demonstrates. But they raise the cost of adjustment, increase the difficulty of using resources efficiently and lower incentives for entry. As the ministry of finance remarks, "in protecting the interests of those who are currently employed, we must not lose sight of the need to create fresh jobs for those newly entering the labour market". The National Renewal Fund, though helpful, is not large enough to make a decisive difference to the government's ability to push through redeployment of organised labour.

The finance ministry has further plans, notably for tax reform, tariff reduction and financial liberalisation. Tax reform, for example, is to include simplification of the complex and distorting structure of excise taxes, abandonment of specific tax rates, more sophisticated tax collection, virtual abolition of exemptions and a progressive move to value added tax.

In industrial policy, the main concern is now with the states, whose licences, permits and inspections impose a heavy toll. No less important has been the failure to provide adequate infrastructure, notably in areas of state responsibility, such as electric power distribution. Furthermore, where central government is involved, as in railways or telecommunications, both delays and bureaucratic and political infighting remain serious obstacles. In addition, restrictions on foreign ownership remain too tight, since it is unreasonable to expect foreign companies to risk ceding control over their most advanced technology.

Much has been done, but much remains to be done. So how far might reform yet go? The erstwhile commerce minister, Mr P Chidambaram, obliged to resign over

□ Continued on Page 9

(1) Jagdish N. Bhagwati, India in Transition: Freeing the Economy *(Oxford: Clarendon Press, 1993)*. (2) Isher Judge Ahluwalia, "Industrial Policy, Reform of Public Sector Enterprises and Privatisation in India," paper for conference on India – the Future of the Reforms, held at Merton College, Oxford, June 27-29 1993; (3) Economic Reforms: Two Years After and the Task Ahead, Discussion Paper, *(Delhi: Ministry of Finance, 1993)*.

Foreign trade perks up, but there's more to do, says **Martin Wolf**

Exports must grow faster

INDIA has increased its exports too little; it has traded too little of its output; and it has traded inefficiently. These have heen the three historic failures that reform of the trade policy regime has to remedy.

The policy changes made so far are dramatic by Indian standards. The question, nevertheless, is whether they will prove enough to bring about the required transformation.

India's trade performanca has not been that dreadful. True. Its share in world exports fell sharply between independence and the mid-1970s, hut it has stahilised at about half a per cent since then. The average growth in

Exports have grown faster than those of Turkey and Brazil

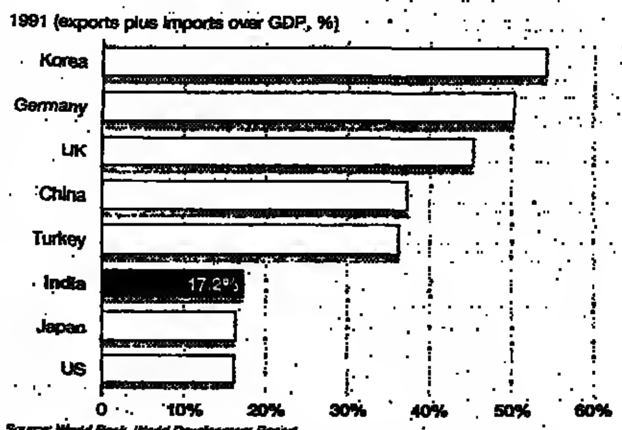
the volume of India's exports between 1980 and 1991, at 7.4 per cent, was not only greater than that of Turkey, Indonesia and Brazil *(see chart)*, hut considerahly faster than the 4.3 per cent India achieved in the 1970s. Again, the weight of trade in gross domestic product, though far lower than in other developing countries, is comparable to that in large advanced countries *(see chart)*.

Nonetheless, India could and should have done better. Other developing countries, notahly in east Asia, have achieved faster export growth and a greater presence in world trade. In 1991, for example, India offered only the 35th largest import market in the world, just below Ireland and far smaller than Hong Kong, Korea, China or Theiland. Export growth was insufficient to finance the imports required by the country's improved, but still modest, economic growth of 5.4 per cent a year during the 1980s. This helps explain India's halance of payments crisis in 1991, notwithstanding a panoply of exchange and import controls and import-weighted tariffs then averaging close to 90 per cent *(see chart)*. The country evidently needs still faster export growth.

India also needs to increase exports and imports in relation to GDP. Its economists and policy makers often argue that such a large country should be no *more* trade dependent than the US. True, India has a huge population, but it has s small modern economy. In 1990, for example, India's manufactnring value added was only 70 per cent of Korea's, 40 per cent of China's and 6 per cent of Japan's. Such a modestly sized manufacturing sector ought to enjoy great opportunities for increased specialisation in trade.

Ratios of trade to GDP

1991 (exports plus imports over GDP, %)



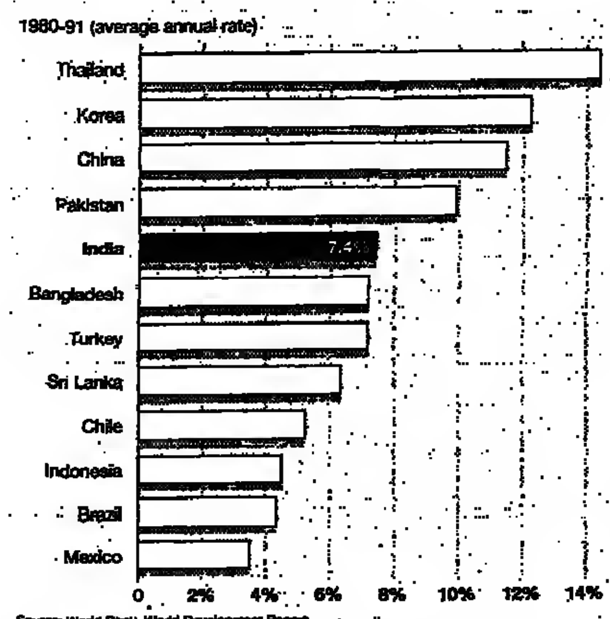
Source: World Bank, World Development Report

The required policy changes have included lower protection against imports, which would itself shift incentives towards exports, and a devaluation of the rupee, which wonld enhance the incentive to produce tradeahle goods and services. This has been precisely the direction taken by the government of Mr PV Narasimha Rao, under the intellectual leadership of Dr Manmohan Singh, the finance minister.

In July 1991, the maximum import duty was reduced from 300 to 150 per cent. Then, in early 1992, emergency import controls were sbolished and import licensing and quotas were eliminated for most capital goods and raw materials. A single negative list, consisting mostly of consumer goods, remained. The maximum tariff was further reduced to 110 per cent, tariffs on most capital goods fell from 80 to 55 per cent, and to 25 per cent for capital goods used by exporters. Some export restrictions were also removed. In the hudget of February 1993, the maximum tariff was lowered to 85 per cent, while tariffs on project imports and many capital goods were reduced to 25-35 per cent.

Growth of export volume

1980-91 (average annual rate)



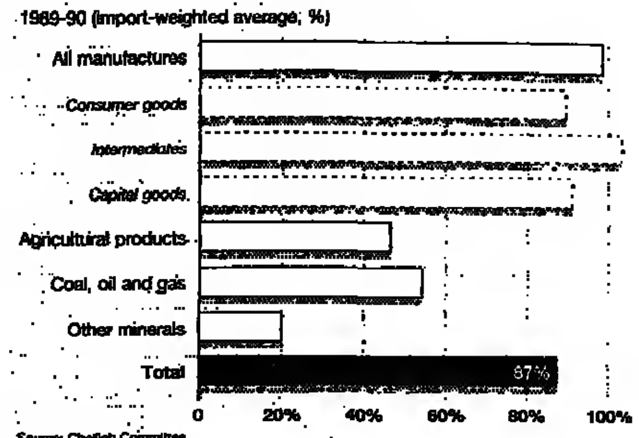
Source: World Bank, World Development Report

The rupee was devalued by 18 per cent in July 1991, export suhsidies were removed and exporters received tradeable import licences for 30 per cent of their export receipts. In March 1992 the rupee was made partially convertible on trade account and a dual exchange rate was introduced, giving a further effective devaluation of 9 per cent. Finally, in March 1993 the finance minister took the bold decision to unify the exchange rate and float the rupee, which has since remained at 31.2-31.4 to the US dollar. Between June 1991 and September 1993 the cumulative devalustion was close to a third.

These changes have met with success. However, the dynamism of exports had been masked hy the collapse in trade with the rouhle zone, from the equivalent of $3.1bn in 1990-91 to a mere $671m in 1992-93. Yet, in fact, merchandise exports in convertible currencies have been growing rapidly for years. Growth seems now to be accelerating, with total exports in April-July 1993 27 per cent more in US dollars than during the same period of 1992.

Pre-reform tariff averages

1989-90 (import-weighted average; %)



Source: Chelliah Committee

Meanwhile, merchandise imports are running at 3 per cent helow their value in April-July 1992 and well under their peak of $24.1bn in 1990-91. In consequence, the merchandise trade deficit has shrunk from $5.9bn in thet year of hrewing crisis to only $438m in the first four months of 1993-94 (an annual rate of $1.3hn).

The risk now is renewed onset of complacency. Far more needs to be done if India is to enjoy an efficient trade policy regime. The Chelliah committee on tariff reform recommended a reduction in the average tariff rate from 47 to about 25 per cent hy 1996-97 or 1997-98.

This proposal has heen accepted hy the government.(¹) Yet even that level of protection would be far higher than in Indonesia, Korea, Mexico, the Philippines, Thailand and Turkey today. The committee also recommended a tariff structure in seven slabs, ranging from zero for basic foodstuffs to 50 per cent for finished products.

Yet as two Oxford University economists, Vijay Joshi and I.M.D.Little, note, the view that "higher stages of manufacturing should have higher rates of nominal protection than lower stages ... is a totally unprincipled principle, for it has no foundation in economic principles(²). The government is also committed to eliminating most exemptions from tariffs and duties, except for inputs into export production and, more radically, to rationalisation of duties and import restrictions on consumer goods(³). It has long been an anomaly of Indian policy that those goods deemed too inessential to import also receive the greatest incentive for domestic production. So long as imports of consumer goods remain bannsd, this ahsurdity will remain.

India imports less than Ireland, Hong Kong, Korea or Thailand

Also important is elimination of export restrictions, particularly on agricultural products, such as cotton. Last hut not least, tardy, sometimes corrupt, administration remains a concern, notably over the provision of still important export incentives, such as duty-drawbacks and advance licences.

Enough has changed in the Indian trade and exchange rate regimes to make probahle an upward jump in export performance. But so large has been the devaluation and so modest the reductions in nominal protection that little, if any, economic restructuring is likely to occur. The government should not only go far further, hut must make its determination to do so as credible as it possihly can.

(¹) Tax Reforms Committee chaired by Raja J. Chelliah, Final Report Part II (Delhi: Ministry of Finance, January 1993); (²) Vijay Joshi and I.M.D. Little, Future Trade and Exchange Rate Policy for India, paper for conference on "India – the Future of the Reforms", held at Merton College, Oxford, June 27-29 1993; (³) Economic Reforms: Two Years After and the Task Ahead, Discussion Paper (Delhi: Ministry of Finance, 1993).

Pace of reform

□ Continued from Page 8

the scam, argues there is no strong opposition to reform. The problem is rather that the government consists of "converts rather than crusaders". The free market does, it is true, have few strong supporters. But it also has few disinterested opponents. Economic success should do much therefore to shift public opinion.

Reformers need a marked improvement in performance as a platform on which to build further reform. Only then might India's politics shift from their current ohsession with the redistribution of just about nothing to the more attractive business of offering more to all.

China does it differently, says **Alexander Nicoll**

Sprinting to the tape

INDIA'S economic reforms, thongh impressive, have not yet taken the country to a higher plane of growth. China, hy contrast, aversged 9 per cent annnal growth in the 1980s after its reforms got under way at the end of the previous decade. Can India too transform itself into a high-growth economy?

On the surface there are a nnmher of similarltles between India and China. Most ohviously, both are very large, rurally-hased economies with low per capita incomes. Both have a hig capacity for growth and large, availahle, hard-working labour forces.

Secondly, both have hnge, very inefficient public sectors and massive hureaucracies. This means that there is tremendous scope for greater prodnctivify – but this wonld involve social, political and management upheavals which have so far prevented mnch improvement in either country. In both countries, corruption is a well-entrenched fact of public life.

Thirdly, both currently have governments which understand what reforms are required to achieve their goals and appear ready to make the necessary changes over time.

The parallels cannot he taken too far. Political structures are entirely different.

The Chinese government does not have to answer to an electorate but instead is subject to repeated internal power struggles which result in periodic changes of direction. Mr Deng Xiaoping, the architect of China's reforms, realised however that market-led economic growth was essential for the Communist Party's retention of power, and this tenet underlies all government policy.

China's reforms, thongh designed to end the heavy top-down management of the economy, have themselves been carefully structured and strongly led hy the government. They are backed hy the party's powerful propaganda machine. When the Chinese government puts its weight behind reforms, they tend to be carried out – sometimes too enthusiastically so that economic growth has then to be contained.

Substantial re-structuring of of the financial system, the pnhlic sector, taxation and trade can he expected in the coming years provided there is not a crippling political power battle.

India's governments operate in a holling cauldron of democracy in which economic policies often seem somewhat irrelevant to their retention or loss of office. It is significant that reforms were introduced two years ago when financial crisis ruled ont most other courses of action.

Mr Manmohan Singh, who launched them as finance minister, is not by career a politician but a financial expert and administrator. He has proved himself to be a canny politician, but relies on the support of a prime minister, Mr Narasimha Rao, whose own tenure has sometimes looked shaky.

When Mr Singh announces reforms, he cannot be certain that they will be pnt into action hecause they tend to involve a diminntion of patronage for bureancrats at both central and state government level. Attempts to open np sectors of the economy, such as airlines, telecommunications, and television, have run into obstacles or become embroiled in corruption.

Political constraints have so far prevented Mr Singh from pntting privatisation and substantial labour reform on the agenda. This is unfortunate because one of India's hig advantages is that it already has a large and vihrant

□ Continued on Page 10

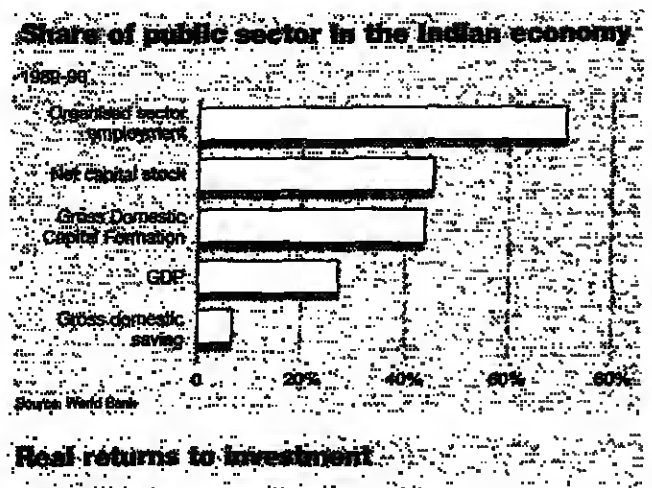
The public sector has turned from a vision of progress into a nightmare, writes **Martin Wolf**

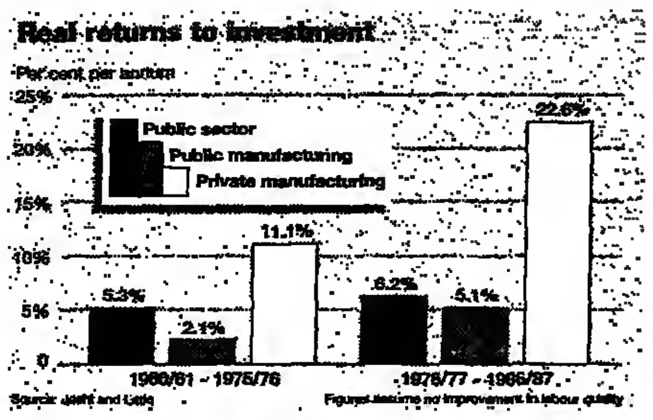
Bottomless pit for national wealth

THE private sector, says a leading Indian businessman, is the people's sector while the public sector is the government's sector. Given the millions of shareholders that large Indian companies, such as Reliance, have been able to attract, the judgment is not entirely unwarranted. The public sector was intended to be the cutting edge of Indian socialist development. It became the plaything of politicians, bureaucrats and, at least by Indian standards, a relatively small and pampered labour force. Now it is an incubus, expensive to the government and damaging to the economy.

At the turn of the present decade, the Indian public sector absorbed 44 per cent of gross domestic capital formation and used 46 per cent of the capital stock. But it generated only 27 per cent of gross domestic product at factor cost and 7 per cent of gross domestic savings. It contributed 18 per cent of manufacturing value added, but 41 per cent of value added in transport, 82 per cent in banking and insurance and 100 per cent in communications. Yet, even though 71 per cent of the people working in so-called "organised" activities were employed by the public sector, that was only 19m people, a mere 6 per cent of India's labour force.

The huge sums invested in public enterprises have brought not merely negligible employment, but paltry economic returns. A study by Vijay Joshi and I.M.D. Little of Oxford University shows that even on relatively favourable assumptions the real return on investment in the public sector, including manufacturing, has been about a quarter of that in the investment-starved private sector *(see chart)*.[1] In 1991-92 approximately 300 central public sector enterprises achieved a net return on capital of only 2.1 per cent. Their net profits were just Rs24.8bn ($970m), with the losses of the 102 loss-making enterprises, at Rs36.7bn, weighing heavily against the profits of the profit-making enterprises, which themselves amounted to only Rs61.5bn.[2] In addition, some 700 or so enterprises were owned by the states, among them the economically vital, but mismanaged, state electricity boards.





The disaster of the public sector enterprises occurred for two reasons. Under the Sick Industrial Companies Act the government acquired unprofitable companies from the private sector, thus, in the words of two distinguished Indian economists, "extending to private enterprises the disincentives that operate on public enterprises"[3]. In addition, even those public enterprises that started as such have generated large losses. This is all a very long way from one of the earliest justifications for the pivotal role of public enterprises, that their profits would help raise the overall savings rate.

Capital needs to be used for more essential purposes, such as expanding the infrastructure

This degree of waste cannot last. India has to find ways of using the capital invested in the public sector units more efficiently, of conserving its scarce budgetary resources for more essential uses and of financing the expansion of the infrastructure essential for fast development. Hitherto, however, it has moved only a few gingerly steps in the needed direction.

The post-reform policies have the following principal elements:

- The number of industries reserved for the public sector has been reduced from 17 to eight.
- Performance is to be improved by means of performance contracts or Memoranda of Understanding, by which managements are to be granted greater autonomy, but also to be held accountable for their results.
- Budgetary support in the form of loans to loss-making enterprises, other than those within the Plan, is to be phased out after 1994-95.
- Up to 49 per cent of equity in profit-making enterprises may be "disinvested", that is, sold to private investors.
- Enterprises are being allowed to form joint ventures and raise fresh equity to finance expansion.
- "Sick" public enterprises have been brought within the jurisdiction of the Board for Industrial and Financial Reconstruction, which is to decide whether units can be restructured or should close down.
- Pricing decisions affecting, in particular, steel and petroleum and coal products, are being taken more flexibly.
- A National Renewal Fund has been established to fund compensation, retraining and redeployment of workers affected by restructuring.
- Finally, for the future, the government plans to press ahead along the lines it has already indicated, as was recommended by the Rangarajan committee on "disinvestment of shares in public sector enterprises".[4]

By Indian standards, these changes are revolutionary and should, if adhered to, bring about at least some improve finally, ment in the performance of these enterprises. By the end of the last financial year, for example, disinvestment in three successive sales had raised Rs49bn ($1.9bn). In 1991-92 between 5 and 20 per cent of the equity in 31 companies was "disinvested". In 1992-93 up to 5 per cent of the equity in 13 companies was similarly sold. The new shareholders should impose greater pressure on management. At least equally significant as such sales could be the introduction of competition. By its own admission, for example, competition has galvanised the notoriously indifferent Indian Airlines, which had lost almost a quarter of its passengers to new entrants, to unprecedented efforts aimed at regaining the loyalty of its customers. For all that, the government is doing little more than nibble at the problem. It is all very well for it to pat itself on the back for reducing budgetary finance for the planned investment of public sector enterprises from 22.2 per cent of the total required in 1991-92 to 18.6 per cent in 1992-93. But it is far from certain that the budgetary stringency of the finance ministry would prove the intended immovable object against the hitherto irresistible force of public enterprise losses. Fundamental problems also remain with management of the public enterprises, while the introduction of competition is still at best only halting.

Shedding redundant workers and closing hopeless companies should become feasible

Paradoxically, India's poverty is being used as a justification for policies leading to a huge and persistent waste of resources. This sacred cow needs to be slaughtered. Reservation to the public sector should cease and competition actively encouraged. There should be separation of responsibilities for regulation from those for the production of goods and services.

Given the vitality of the Indian capital market and the interest of foreign firms, complete privatisation can and should be pushed forward. Finally, the shedding of redundant workers and the closing of hopelessly unviable firms must be made feasible.

The drawback of the current approach is that it will make no difference to the problem. But it will take far too long and change much too little. India cannot afford to waste so much of its capital, use up so much of its scarce budgetary resources and provide so little of the essential infrastructure it needs, all in order to support a sector that offers employment to so few and loads the costs of its poor performance on so many.

(1) Vijay Joshi and I.M.D. Little, India Macroeconomics and Political Economy 1964-1991 (Washington DC: World Bank, 1993); (2) Government of India, Economic Survey 1992-93; (3) Jagdish N. Bhagwati and T.N. Srinivasan, India's Economic Reforms, report prepared at the invitation of the Finance Minister, June 1993; (4) Economic Reforms: Two Years After and the Task Ahead, Discussion Paper, (Delhi: Ministry of Finance), 1993.

KEY FACTS

Area	3,287,263 sq km
Population	856 million
Head of state	Dr Shankar Dayal Sharma
Currency	Indian rupee
Average exchange rate	1992 Dec. $1=26.2 Rupees
	1993 July $1=31.4 Rupees

ECONOMY	1991/92	1992/93
Total GDP ($bn)	248.2	...
Real GDP growth (%)	1.4	4.0
GDP per capita ($)	353	290
Components of GDP (%)		
Private consumption	64.9	n.a.
Total investment	24.1	n.a.
Government consumption	11.4	n.a.
Exports	9.4	n.a.
Imports	-9.8	n.a.
Central govt. finances, % of GDP		
Total receipts	12.3	11.8
Total expenditure	18.3	17.5
Fiscal deficit	6.0	5.7
Primary deficit	1.6	1.0
Interest payments	4.4	4.7
Inflation and interest rates		
Inflation[1]	13.6	7.1
Bank rate (%)	12.0	12.0
Three month money (%)	4.6	4.6
Debt		
Total external debt ($bn)	71	76
Debt service ratio (%)	25.8	27.0
Reserves minus gold ($m)	5,722	6,380
Trade		
Exports ($m)	18,136	18,400
Imports ($m)	19,728	22,347
Trade balance ($m)	-1,591	-3,947
Current account balance ($m)	-2,016	-5,221

Main trading partners (% share)	Exports	Imports
US	16.4	
Japan	9.2	
Opec	8.7	
Western Europe	27.0	
[Germany	7.1]	
[UK	6.4]	
[France	2.4]	
[Belgium	3.7]	
Eastern Europe	10.9	
[USSR	9.2]	

All data is for fiscal years April-March. Reserves at March 92,93 (1) Annual percentage change in wholesale prices.
Sources: Government of India, World Bank.

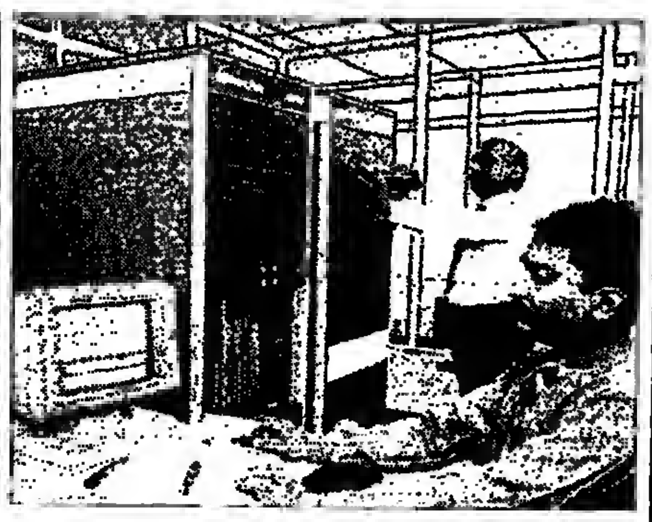
China compared

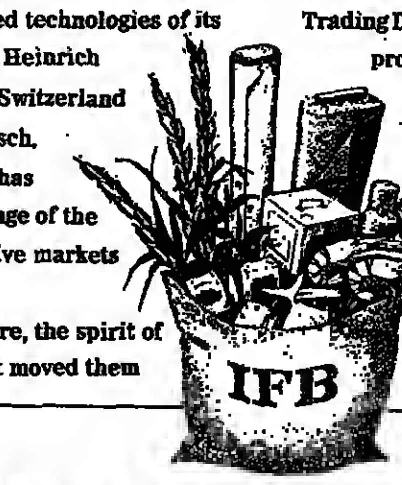
☐ Continued from Page 9
private sector which should be a powerful engine for growth of the economy and of exports once it has adjusted to the ending of the need for close ties with the government and of the protection afforded by high tariff barriers. Management skills which China is having to learn from scratch already abound in India.

India also has a better developed financial system able to channel resources to the development of businesses. Though its inadequacies were shown up by the stock market scandal of 1992, it is still streets ahead of China where the financial system has essentially existed to bankroll state direction of the economy.

The biggest difference evident to the foreigner, however, is in attitudes to foreign investment. China patently welcomes investment, even though foreign companies must work hard to develop contacts and to ensure that contracts are carried out as they envisage. The would-be foreign investor in India, though entering a developed private sector with many familiar and appealing aspects, must still wade through official processes of the pre-reform era which can take inordinate time and effort.

Mr Rao, Mr Singh and other key ministers and officials have the vision and the will to change the economic face of India, but they have yet to inspire the same determination among sufficient numbers of their colleagues. Until the political will becomes more widespread, it is difficult to see India moving up to join the high-growth economies further east.





Martin Wolf finds the multinational power giant bullish on India

Undaunted ABB aims high in spite of delays

ASEA Brown Boveri is bullish on India. Mr Percy Barnevik, chief executive officer of the Swiss-Swedish multinational, said last year, for example, that he expected India to become one of ABB'e seven or eight most important markets. Mr K. Narasim Shenoy, ABB's managing director in India, aven regards India as having the "number one" potential in Asia, ahead of China.

Mr Shenoy has elaborated ABB's amhitiona. He hopes that hy 1996 ABB will have invested an additional $300m, apart from $1bn earmarked for a thermal power generation project near Delhi, and achieved an annual turnover of $1bn. ABB even plans to be the largest private sector industrial group in India hy the end of the century.

ABB has far to go. In 1992 the revenues of the group were only Rs5.1hn ($165m). But the company is already entrenched in the Indian market. By 1992 its total employment in India, at around 7,500, was ninth highest in ABB worldwide. Soon it may be fifth or sixth.

ABB is no neophyte in India. The group's current market presence consists of ABB, a 1989 merger of Asea and Hindustan Brown Boveri, along with SAE – a maker of power transmission towers – and Fläkt, which makes pollution control equipment and is a leader in air and gas handling technology. Both of the latter are shortly to merge into ABB India, in which ABB, the parent group, has raised its stake to 51 per cent, following changes to. the Foreign Exchange Regulation Act.

Members of the group commenced manufacturing in India in the 1960s and are now mainly concentrated in turnkey power generation projects, along with equipment for power generation, transmission and distribution.

ABB's amhitions for India reflect its appreciation of the country's potential and enthueiasm for the liberalisation of the last two years.

Mr Yogesh Desai, communications manager, notes that the environment has heen transformed in two respects: large companies used to have to wait for one and a half to two years to gain permission to introduce a new product, but that delay has now disappeared for most products; companies also used to be told by the government of India to produce components in line with a "phased manufacturing programme", but now industrialists have the flexihility to import the components they need. The fundamental change, in short, is that entry has become far easier.

> **The delay has been caused by lobbying by powerful losers, including a public sector competitor, concern about dependence on foreign technology and suspicion of multinationals**

It may be easier, hut as ABB knows full well, it is not that easy. The prohlem, notes Mr Shenoy, is still one of agonising delays. Prohlems become particularly severe when projects are politically controversial, as they often are when, as is the case for ABB, the client is either a government or a public sector enterprise.

A technology transfer project for high powered electric locomotives, financed by the Asian Development Bank, has dogged ABB since 1987. Since winning the initial tender, ABB has had to undergo two rebids and a parliamentary inquiry.

Although the contract has at last been signed by the government of India, it is unclear whether Indian Railways has the money to go ahead, its particular prohlem being finance ministry insistence that this puhlic sector entity pay the government 100 per cent duty on the imported locomotives. Already delays have been so great that the ADB has threatened to cancel the $190m loan.

What has caused the delays? It is not doubt about ABB's technology, since it is the unquestioned global leader in energy and maintenance-saving 3-phase AC locomotives. Nor is it lack of indigenisation, since the contract envisages that import of 16 fully assembled locomotives and 14 more in kit form will be followed hy transfer of the production technology to Chittaranjan Locomotive Works. Nor is it the capital cost, which seems likely to work out at about the same level as any relevant alternative.

The delay has been caused by lobbying by powerful losers, including the puhlic sector competitor, Bharat Heavy Electrical, concern ahout dependence on foreign technology and suspicion of foreign multinationals. The lesson, says Mr Desai, is that "being good is not good enough. Yon must talk about it, even to unrelated constituencies and convince them." ABB now has a far more favourable press, claims Mr Desai. Yet great damage has still been done, more to India, which has lost six valuable years to fruitless politicking, than to ABB.

Delays are also arising with ABB's planned involvement in power generation. In line with its "multi-domestic" policy, ABB decided to support the government's policy of securing private sector power generation. It has signed a memorandum of understanding with the National Thermal Power Corporation to participate in a combined cycle 800MW power plant at Bawana, expected to cost some $1bn. But this proposal has already been delayed about 18 months for evaluation of tenders, which ehould be completed by next month.

Even then, the power purchase agreement must be finalised, to which must he attached adequate financial guarantees, a vital matter in view of the parlous financial state of the electricity boards.

ABB is undaunted. Whila categorically denying all interest in purchase of any part of BHEL, it is interested in joint ventures. It is also negotiating with the state government of Karnataka to purchase a stake in the New Government Electrical Factory, a manufacturer of transformers. But ABB will be limited to a minority stake, since the state intends to keep 51 per cent.

The ambitions of ABB are vast. Whether it can fulfil them will be a test not only of its own abilities, hut still more of the political environment in India. Much has changed. But much has still to change.

Profile: STATE BANK OF INDIA

Tough task for Basu

FINANCIAL sector reforms are nshering in unprecedented changes at the State Bank of India. It will have to reach Basle norms for capital adequacy before March next year and meet increasingly stiff competition in the market place.

This is tough time for the bank, which is recovering from India's worst securities scandal and facing the possible loss of monopoly business for state-owned enterprises following economic liberalisation.

The State Bank of India came into existence 38 years ago after the Reserve Bank of India, the central bank, purchased a majority stake at Imperial Bank of India, the Scottish-owned bank, in order to make the State Bank an instrument of economic development. It has now 8,800 hranches and deposits of Rs663hn.

Many of the bank's prohlems stem from government policy requiring leading banks to be nationalised and the entire hanking system to set up hranches in rural areas and lend 40 per cent of their credits to sectors – such as agriculture and small businesses – designated as priority areas by the government.

This meant that around two-thirds of all lending by banks was in effect directed by the state. Under the social policy of extending credit into rural areas and supporting smaller companies the hanks have heen required to subsidise loans and shoulder bad debts.

The government is now pushing ahead with reforms of this over-staffed and slow-moving sector as part of the reform programme. In January it said that it would allow private banks to be established.

Reforms come on the heels of a setback suffered hy the bank last year when it had to provide Rs7.06bn for losses in the Bombay securities scandal that rocked the financial system. In the wake of the scandal, the hank lost its chairman, M.N. Goiporia, who retired prematurely and its managing director Mr V. Mahadevan, who was sacked.

> ***In the wake of the scandal, the chairman of the bank retired and the managing director was sacked***

Several top bankers left the bank for greener pastures and many are targeted for hiring by the new commercial banks that are being floated.

Never before has competition been so intense. All banks are now seeking hlue chip customers so that they can make lower provisions to cover risks. The State Bank has reached 5 per cent capital adequacy on its Rs663bn deposits and will hit the target of 8 per cent through recapitalisation.

The bank's new chairman, Mr Dipankar Basu, is treading warily to stahilise operations, boost staff morale and stem the flight of talent. Mr Basu has hired management consultants to advise him on enhancing the staff response to customer needs in the changing environment.

An equity issue is planned later this year, making the State Bank the first to go to market. The Reserve Bank, which now owns 98 per cent of the bank, will see its stake fall hy a third to 70 per cent.

Mr Basu, enjoying the newly ordained freedom, plans to close uneconomic hranches. "The exercise will not be worth it unless [closure] is in humdreds," Mr Basu says. Nearly 2,400 of the hanks's 8,800 branches are making losses at present.

But his determination to have a lean bank does not go beyond network reduction and certainly does not extend to staff reduction. This is to be taken care of by natural wastage and a han on new recruitment, Mr Basu adds.

Two other components of cost cutting will be "significant automation", as Mr Basu puts it, and elimination of subsidies in the pricing of products. The minimum balance of Rs100 for a savings deposit account with cheque facility stipulated 20 years ago when the the rupee was worth three times its present value, is in urgent need of review.

As the country's, and probahly the world's, largest bank in terms of hranches, the State Bank has the sector's best reach. The second largest Indian bank has half the number of branches. "We are not unduly perturbed about competition. Our strength is the network," says Mr Basu.

The State Bank is aiming to be a universal institution offering all types of services under one roof. Rationalisation will affect the bank's seven subsidiaries, which have a comhined 4,000-hranch network and deposits of Rs188bn. A proposal has been put forward to merge them into a single bank to eliminate duplication.

SBI Capital Markets, one of the bank's suhsidiaries, is a merchant bank and undertakes leasing. SBI Fund Management is a mutual fund. The bank is also involved in factoring and housing finance.

The London-registered SBI European Bank administers the bank's international natwork and provides its parent with banking intelligence.

The next big initiative for the State Bank is in the Far East and the former Soviet Union where it plans to set np branches.

R.C. Murthy

Production of saleable steel by Sail and Tisco (000 tonnes)

	1988-89	1989-90	1990-91	1991-92	1992-93
Sail	6,619	6,731	7,035	7,641	7,937
Tisco	1,944	1,913	1,900	1,978	2,084

Source: company reports

Kunal Bose on privatisation and the steel industry

A Raj relic for sale

BURNPUR CLUB, like the rest of this once vibrant steel city, is having a hard time.

Its gardens have withered. The steel executives, unsure of their future, no longer turn up for lunch and only a few come in the evening.

The Indian Iron & Steel Co (IISCO), which owns the Burnpur steelworks, is woefully short of funds to maintain the city with its elegant bungalows built during the days of the Raj.

IISCO, deeply in debt, has let the plant decay. Parts date from the 1920s and its productivity is the lowest in the Indian steel industry.

In the year to March 1993 it produced 360,000 tonnes of hot metal. But its outworn melting shop converted this into only 363,000 tonnes of steel.

Mr K.V. Pai, managing director, says: "Though we have learnt to run a dilapidated steel plant, the Burnpur works as it is will not survive very long. Modernisation cannot be postponed any longer."

But comprehensive modernisation and capacity expansion, which finally will claim an investment of Rs80bn will have to await IISCO's privatisation. And that means job cuts.

When India's public sector was treated as a holy cow by the federal government, the 33,000 jobs at IISCO were safe. However, the economic programme of the Narasimha Rao government does not permit indefinite bankrolling of the company's losses.

In a last-ditch rescue effort, New Delhi has decided to privatise IISCO. The move has raised the unions' hackles.

Anxious to protect jobs, the five unions have responded by forming a committee to fight privatisation through mass meetings and strikes. More than 1,000 IISCO officials have made common cause with the unions.

Mr Chandrasekhar Mukherjee, the local president of the Marxist union who was fired from IISCO 40 years ago for leading a strike, says: "IISCO is the major employer in the Burnpur city which has a population of nearly 200,000.

"We know for certain that privatisation will lead to contraction in employment at IISCO. That will spell ruin for the city."

According to Mr Mukherjee, the trade unions allied to different parties are united against selling IISCO which they fear will lead to privatisation of other government undertakings. Mr Santosh Mohan Dev, steel minister, has told the unions that the government is bent on transferring IISCO to the private sector.

> Mr Mukherjee, hero of many a union battle, is no longer confident about his present campaign

Mr Mukherjee, hero of many a union battle, is no longer confident about his present campaign. Its prospects have not been helped by Mr Jyoti Basu, the pragmatically minded Marxist chief minister of West Bengal.

Mr Basu believes that the steel plant, which has run up a loss of Rs7.58bn, cannot be saved unless it is modernised with private finance.

Mr Basu wants to have a say in choosing a buyer for IISCO. He has already invited Mr Swraj Paul, chairman of the UK-based Caparo Group, to rescue IISCO.

At first Mr Paul seemed keen to accept the challenge but then backed out because he did not like the conditions set by the government.

But the ever-pragmatic Mr Basu has also supported a bid for IISCO by Mukand whose chairman, Mr Viren Shah, is a prominent member of the right-wing BJP - the Hindu Bharatiya Janata party.

The power of IISCO's large workforce was a factor in influencing the Mittals and the Tatas, India's two leading industrial groups, not to bid for the company.

The Mittals had thought of re-equipping Burnpur with a second-hand, but relatively new steel plant to be imported from the UK. They dropped the idea because of doubts about winning co-operation from the labour force. For the Tatas, involvement in IISCO would have been a distraction from plans to expand their steel plant at Jamshedpur.

Finally, to the disappointment of the federal government, there were only two bidders for IISCO - Mukand and Usha Rectifier.

The committee of experts on private participation in IISCO headed by Mr P.L. Shenkar reported that it found the Rs32bn Mukand proposal to rehabilitate the steel plant "more confidence inspiring". Mukand has a technical agreement with Boogovens of the Netherlands.

Usha Rectifier, however, claimed that it offered a better price and that its Rs52bn modernisation programme, unlike that of Mukand, included a dedicated power station and a new blast furnace. It had also secured MAN of Germany as a partner.

One committee member, Mr K.C. Khanna, former chairman of Steel Authority of India (SAIL), offered a minority opinion, which is being canvassed by the unions. He said that SAIL should be given the responsibility for modernising IISCO, which is a subsidiary of SAIL.

But SAIL, which is busy modernising its bigger and newer steel plants at Durgapur, Rourkela, Bhilai and Bokaro, would find it hard to devote resources to IISCO as well. Meanwhile, time is running out at Burnpur.

Development is hampered by the world's worst illiteracy level, writes **Stefan Wagstyl**

Poverty in a class of its own

AFTER years of neglect, India is beginning to take education seriously.

But it will take many years to right the damage done to India's people, particularly the poor, by the long decades in which the ruling elites failed to make a priority of educating children.

India has the doubtful distinction of having more illiterates than any other nation – almost half its population aged seven and over cannot read or write. About 20 per cent of all children never even enroll at school; 60 per cent of those who do drop out long before the end of basic education.

Uneducated people have little chance of participating fully in the economic modernisation which Mr P. V. Narasimha Rao, the prime minister, and his colleagues are pursuing. Worse, the lack of literacy could itself become a serious block to further progress. With the exception of the oil-rich Gulf countries, no state has achieved industrial take-off with literacy levels below 60 per cent.

The economic success of China and other east Asian nations, which all made a priority of primary education, has finally persuaded many Indians that they cannot go on as before.

Mr Arjun Singh, the minister for human resource development, whose brief includes education, says that in the past education did not get the attention which it should have done because India faced other pressing problems such as building its industrial base. "Now that other needs have been satisfied, the highest priority has been given to getting over the backlog in education." India's target is to achieve 100 per cent literacy by the year 2000.

However, this target seems unrealistic because India does not seem ready to commit to primary education the resources necessary to teach reading and writing even to all its children – never mind to illiterate adults.

Half the population aged seven and over cannot read or write – a fifth of all children never attend school and 60 per cent of the rest drop out

India spends about 3.8 per cent of its gross national product on education, about the same as other low-income developing countries, including China. However, India directs a disproportionate amount of its education budget on universities and colleges for the children of its tiny upper and middle classes.

Indian education officials often argue that the reason so few children attend school is that their parents prefer to send them to work. The families need the money the children can earn. Eimi Watanabe, the former head of the Unicef office in Delhi, rejects this argument. She says parents would send their children to school if only the education on offer was better and more relevant to their needs. "The problem in education is poor supply not poor demand."

Particularly in northern India, where illiteracy is especially high, teachers are poorly trained, have inadequate materials, and face classes of up to 80 pupils. Ms Watanabe says it is little surprise that the parents take their children out of school.

Even in the poorest regions, such as the eastern state of Bihar, there are dedicated officials and teachers, some of them volunteers. But generally, in northern India, the commitment to teaching the poor is weak. Take the example of one state-level education official who explained to the representative of an international aid agency how he was able to manage his budget in spite of increasing enrollments. He said: "Because of literacy campaigns we have high initial enrollment but *fortunately* we have a high drop-out rate."

The underlying reasons for India's neglect of primary education are much in dispute. Professor Myron Wiener, a US academic and author of a study of Indian education, pins the blame on the caste system. He says that the upper castes have little interest in educating the lower castes because their own position at the top of the hierarchy might eventually come under threat.

Mr Wiener's Indian critics say this is nonsense. Some of them retort by blaming the British Raj for limiting high-quality education to a small elite of middle-class Indians who were trained to serve their rulers. This established a tradition of limiting access to schooling which independent India followed.

Literacy levels vary widely but are generally low in the north and high in the south. In the coastal state of Kerala they come close to 100 per cent. In Bihar in the north it is less than 40 per cent. Coastal regions generally do better than in-land districts probably because they have long been exposed through trade to different influences instead of being bound by traditional caste and other ties.

Also the south is more literate than the north because Christian missionaries were particularly active there at an early date teaching reading and writing as a way of spreading their faith. Hindu and Moslem teachers responded in kind – channelling competition among the religions into education.

In the north, where Christianity had much less impact, competition between Hindus and Moslems was primarily military. So schooling was less well developed.

But the blame cannot entirely be pushed back into previous centuries. Mr Singh, the minister, admits that for well-intentioned reasons post-independence governments put a higher priority on industrialisation than on education. Unlike other socialist-inclined countries, including the Soviet Union and China, India neglected basic schooling and basic healthcare.

Also, India deliberately excluded the World Bank and most other aid donors from education arguing that foreign money was better spent on concrete projects like dams. Only in the late 1980s, did Indian officials begin to see that they were cutting themselves off from important developments in education. Only this year is the World Bank finally funding its first educational project in India – a $300m teacher training programme in the northern state of Uttar Pradesh.

The poverty trap: Delhi's homeless asleep in a station Picture: Reuter

The picture is not altogether gloomy: as well as Kerala, which has long been seen as an exception in achieving early widespread literacy, other states are making progress, notably the relatively large southern state of Tamil Nadu which this year pledged to build enough schools to make sure that one is within reach of every family. The state claims that 100 per cent of its six-year-olds are now enrolled. The literacy rate is 64 per cent.

Unfortunately, India may still be moving too slowly towards widespread literacy. Without better education, particularly for women, it will be difficult to spread better health and hygiene standards and better knowledge of family planning. Without these, the population will carry on growing at 2 per cent a year. Eventually, millions of poor illiterates would swamp the economy, bringing growth to a grinding halt with a grave risk of widespread unrest.

As Ms Watanabe says Indians are just beginning to realise the dangers. "People are beginning to understand that education is a critical issue for population growth and economic development. They see that if they don't act they face a bleak future in the 21st century."

■ NON RESIDENT INDIAN INVESTORS

Red tape heroes

AN Indian businessman, resident abroad, who wanted to invest less than $500,000 to set up an export-oriented software company in Bangalore, south India, spent about six months going through nine steps in three cities to win approval for his plans.

First he applied in Bangalore to the director of the Software Technology Park (STP), a special commercial estate designed to attract high-technology investment. Then the application was considered by an inter-ministerial committee of the Department of Electronics (DOE) in Delhi. The committee sent the application to the Secretariat for Industrial Approval SIA) in the Industries Ministry to certify that the company was a 100 per cent Export Oriented Unit (EOU), and therefore entitled to special regulatory privileges aimed at promoting exports.

From the SIA, the case went to the Foreign Investment Promotion Board (FIPB) in the Prime Minister's Office (PMO), where the majority foreign ownership was cleared and permission granted for the eventual repatriation of dividends. The FIPB's decision was passed for ratification to the Empowered Committee, a committee of one – the finance minister.

The application was sent back to the SIA which issued an EOU certificate. Armed with this, the applicant went to Bombay to the Reserve Bank of India, the central bank, to seek permission to remit the money from abroad and invest it in an Indian company. He negotiated terms with the RBI. He was permitted to invest his money in India. Whether the investment is $0.5m or $300m, the procedure is the same.

It is no wonder that most non-resident Indians and foreigners are turned off by Indian bureaucracy. The only solution is to abolish the Foreign Exchange Regulation Act, the law which controls foreign exchange transactions. Even after recent reforms, the rules run into hundreds of pages. Any partial tinkering will not do. The financial regulation of foreign investments should be delegated to commercial banks which can be authorised to ensure that the remaining rules are observed.

The greatest challenge facing India is creating enough jobs for its burgeoning population. India's unemployed have never been properly estimated but they could total 100m. As the population is growing at 20m a year, India must create at least 10m jobs a year. The total number of jobs in the organised sector is only 26m – 18.5m in the public sector and 7.5m in private companies. Only about 0.7m jobs a year have been created in the past few years, most of them in the public sector.

The lack of jobs is a socially-explosive issue manifesting itself through demands for increasing job reservation according to caste. This is a time-bomb. Lacking a social security system for the unemployed, India desperately needs to create more jobs. It can only do this by a radical economic policy change to generate economic growth of 10 per cent a year, instead of about 5 per cent as now.

The main constraint on growth is the lack of capital. India's savings rate is high at over 20 per cent of GDP, but much of this money is deployed to support a large bureaucracy and a vast loss-making public sector industry. The only sensible solution is to attract more foreign investment. India needs an infusion of at least $10bn a year for 10 years. It can only get it by making it easier for foreigners to invest.

The government has already taken some steps – significant by Indian standards – to liberalise the economy. It has virtually abolished industrial licensing; it has diluted the Monopolies and Restrictive Trade Practices Act; it has made the rupee fully convertible for trade transactions.

Today it is possible for Indian and foreign companies to expand their activities even through mergers. The recent takeover of Tomco, a soaps and detergents company in the Tata industrial grouping, by Hindustan Lever, an affiliate of Unilever, the international foods group, is an example of the new freedom. Foreign companies which were previously forced to reduce their holdings to 40 per cent have been able to raise them to 51 per cent, and that at reasonable prices.

New investors attracted by the change in policies include American corporations such as Coca Cola, Pepsi, General Electric, and IBM. Indian exports have also become more competitive and increased significantly in the recent past.

Yet the total of direct foreign investment approved by the government is under $2bn. The investment which has actually flowed into India is much smaller. This is a trickle compared to what the country needs. (China has in the past decade attracted $40bn).

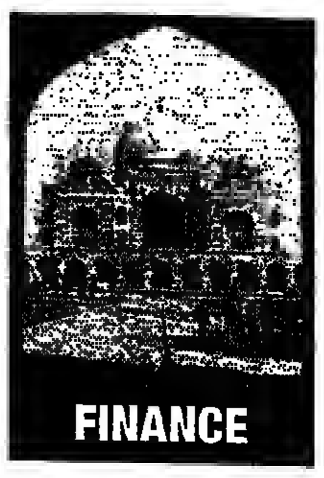
The Indian government needs to take the following steps to make the country more attractive to foreign investors:

- strengthen the government's commitment to reform by inducting into the Cabinet more ministers who are not only fully committed to reform but are able to articulate the policy in Parliament, in public and in the media.
- decentralise the decision-making process with regard to industrial investment. With the end of licensing, there is very little need for the centre to intervene in India. Intervention only adds to confusion, corruption and delay. Decentralisation will simplify procedures and promote competition for investment among states. To speed this up, each state should be allowed to set up a Special Economic Zone to attract export-oriented investment.
- large public sector undertakings should be opened to international groups with specialised knowledge in areas such as petroleum, power, and telecommunications. This will help upgrade India's infrastructure, the poor quality of which is a major limitation on growth.
- reform the financial sector by forcing nationalised banks to go to the capital markets to raise capital and by allowing foreign financial institutions to enter and compete. Competition is the best cure.
- abolish foreign exchange regulation.

By adopting these suggestions, India can eventually attract a much larger flow of investments than China because it has significant advantages such as democracy, the rule of law, a highly-sophisticated entrepreneurial class, well established stock markets, a good supply of talented English-speaking managers, and cheaper skilled labour than the rest of Asia.

T Thomas

□ *The writer is former chairman of Hindustan Lever, a former director of Unilever and chairman of Glaxo India*



The shape of financial reform is still unclear, says **Stefan Wagstyl**

Half-baked solutions feared

If India's economic reforms make progress anywhere in the next year, it will be in the financial markets.

Officials at the finance ministry and at the Reserve Bank of India, bankers, brokers and businessmen all expect to see changes in the next few months. But they differ greatly about what the impact of those changes will be.

While there is little doubt that policymakers are committed to further financial liberalisation, there is serious concern among pro-reform financiers that the government may stop short of creating fully-fledged open markets.

They fear that India could be left in an economic half-way house in which the government-owned banks and other public sector institutions will continue to have the upper hand in their dealings with private companies.

Last year's Rs40bn securities market scandal, in which brokers siphoned funds illegally out of banks for stock market investments, has reinforced the belief that the government will be very reluctant to give the private sector a free rein.

As Mr N. Vaghul, chairman of the Industrial Credit and Investment Corporation of India, says: "Policy reform is going very well. In a few months it will be completed. But there is a serious problem with the institutions. I don't see the government having the courage to reform them."

India's financial markets are a curious hybrid. There are pockets of raw capitalism such as the Bombay Stock Exchange, with its total market capitalisation of $70bn, where the brokers are largely a law unto themselves. Leasing, merchant banking (loosely defined), gold, silver and diamond trading are also mostly pursued with little interference from the authorities.

But all this rumbustious money-making, reminiscent of 19th century Britain or early 20th century America, goes on around the underskirts of large publicly-owned institutions, which have operated in one of the tightest regulatory regimes in the non-communist world.

Bringing some order into this jungle requires three main changes: firstly, the stock market must be brought under regulatory control without being stifled; next, markets dominated by public institutions must be opened to private competitors, including foreign companies; finally, public institutions must be prepared for competition, including banks, which need to be cleared of the bad debts accumulated during years of operating on non-commercial lines. And these changes must be carried out without jeopardising growth.

Badla creates the opportunity for brokers to manipulate prices

The reform-minded government of Mr P.V. Narasimha Rao has gone a considerable way with stock market reform. Laws have been passed to increase investor protection, ban insider trading and promote greater transparency.

The Securities and Exchange Board of India, the watchdog organisation established last year, has set about its job more vigorously than expected. To the annoyance of stockbrokers, it is delving deep into the workings of Bombay Stock Exchange, trying to enforce open market rules – such as transparent pricing.

It wants brokers to give clients information about commission and other payment details. It has also proposed an ambitious plan for computerised futures and options trading to replace the present informal forward market called *badla* in which brokers carry forward own-account and clients' speculative positions using funds borrowed from other clients at rates of up to 25 per cent. *Badla transactions account for 75-85 per cent of all* trades – creating considerable opportunity for brokers to manipulate prices.

Brokers are in a quandary. To fend off SEBI's attack, they are making counter-proposals including plans for computerised trading and settlement and a centralised depository. But such plans would cost a great deal of money. The exchange is divided between some of its larger member firms, which support modernisation because of the efficiencies it would bring, and other firms, including many small ones, which seem to prefer to carry on in traditional ways.

One consideration is the interests of foreign institutional investors, which have since last year been permitted to invest directly in Indian shares instead of through a limited number of country funds. So far, 56 funds have secured licences, though fewer than 10 have been active investors. As India wants foreign capital, it will have to take care that they are treated fairly by brokers and other intermediaries.

The government is also committed to increasing competition in markets dominated by state-controlled institutions. In fund management, it is chipping away at the near-monopoly enjoyed by the Unit Trust of India, a mutual fund group with 90,000 agents and 30m accounts throughout India.

SEBI has this year cleared 14 private sector groups to launch funds. UTI is responding to the competitive threat by agreeing with Alliance Capital, the US fund management group, jointly to launch an Indian mutual fund.

In insurance, a committee that is expected to report to the finance ministry soon is almost certain to recommend ending the monopolies enjoyed by LIC and GIC. Among foreign insurers, Sun Life of the UK has already established ties with LIC under which the two companies jointly sell life insurance to Indians living in Britain. They plan to establish a second joint venture in India. But it could take time before there is genuine competition.

Like most Indian publicly-owned institutions, UTI, LIC and GIC are over-staffed and under-computerised. But their problems pale in comparison with the country's banks, where the government and the reserve bank face the greatest challenge – and where they are likely to fall furthest short of creating genuinely competitive commercial markets.

Since 1991, the authorities have gone some way towards liberalising interest rates, abolishing a complex multi-rate interest structure and keeping just three rates – a maximum deposit rate (now 10 per cent), a concessional lending rate for small loans (12 per cent) and a minimum lending rate for other loans of 15 per cent.

Banks are obliged to charge a lower rate to small borrowers

The amount of enforced lending from banks to the government has been reduced, albeit modestly. Until 1991, banks had to deposit with the government 38.5 per cent of their deposits and another 25 per cent with the reserve bank. Now these figures have dropped to 34.7 and 14.5 per cent. The plan is to cut them again to 25 and 10 per cent.

The rationalisation of the interest rate structure and compulsory deposit ratios have given banks slightly more room for manoeuvre, releasing more funds for commercial lending. But distortions remain – for instance, on a small loan banks are obliged to charge at least 3 percentage points less than on a large one. In countries with relatively open banking systems, small borrowers usually pay a large premium over *big* corporations.

Moreover, the government has expressed no wish to reform s much greater restriction on banks' activities – an obligation to advance at least 40 per cent of credit to politically-favoured sectors, including farmers and small businesses. As a result, others must pay more for credit.

However, distortions in credit policy pale in comparison with the weaknesses of the banks themselves. The 28 nationalised banks, with 40,000 branches, accounting for over 90 per cent of total bank assets, employ too many people and too little technology. State Bank of India, the largest, says 28 per cent of its 8,738 branches lose money. The 200 regional rural banks with 15,000 branches are even worse off.

Both the national and the rural banks were encouraged to expand rapidly in the backward regions of India by the government. The result is a massive backlog of bad debt, accumulated because too little regard was paid to credit quality. Mr C. Rangarajan, the central bank governor, says: "At the moment the [capital] base of banks is weak according to the norms we have laid down."

The central bank has this year introduced rules requiring banks to account fully for bad debts. As at the end of March 1993, it estimates bad debts of the national banks totalled Rs100-110bn. Others put the figure as high as Rs220bn. Rural banks' bad debts could raise the total to Rs270bn.

The government, which has injected Rs40bn in the past to bail out banks, is this year putting in a further Rs57bn. But without even more, the banks will be unable to make full provision for debts. Nor will they be able to meet international capital adequacy norms laid down by the Bank for International Settlements. Banks with international operations have until March 1995 to meet the BIS's requirement of a minimum ratio of capital to assets of 8 per cent. Other banks have until March 1996.

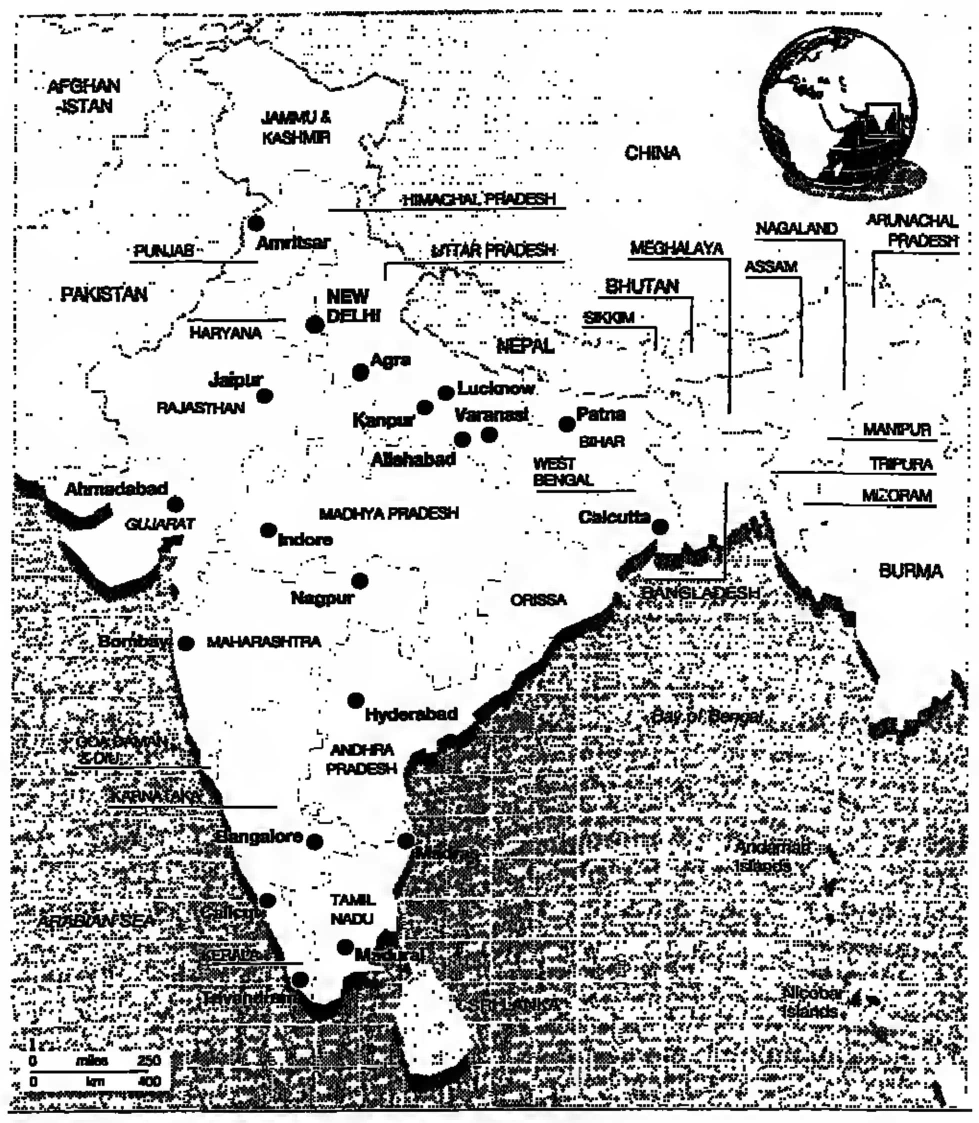
In order to fund their needs, banks are being urged to go to the capital market. The State Bank of India is planning to raise Rs20bn later this year, in a move which will reduce the state's ownership stake from 98 per cent to 70-75 per cent. However, SBI is a particularly well managed institution. Others will be unable to attract private shareholders.

Mr D. Basu, the SBI chairman, says there will be mergers among banks. Yet be doubts whether they will lead to greater efficiency since banks will not be free to close branches rapidly or cut staff. For instance, the Punjab National Bank, a state-owned bank, recently took over the loss-making New Bank of India. But the deal was held up for three years while staff at the two institutions sorted out their relative seniorities.

World Bank studies show that countries determined to sort out loss-making banks are usually able to finance recapitalisation. If the Indian banks' bad debts reached Rs200bn, that would be only about 3 per cent of GDP. By comparison, Spanish banks' bad debts total 16.8 per cent of GDP.

However, recapitalising banks will be a waste of resources unless banks are also required to operate more efficiently. At the central bank, Mr Rangarajan believes they will, to compete with the 55 existing private banks (including 24 foreign) plus four newly licensed private banks. State-owned banks will have to sign operating agreements with the reserve bank that make profitability rather than asset growth the top priority.

These pressures could improve the efficiency of a handful of well-managed institutions. But a fully-liberalised banking industry is not even on the government's agenda. As one Bombay banker says: "The banks will modernise but control will stay 90 per cent with the government."



■ THE STOCK MARKETS

Fall-out from a scandal

THE Indian government is breathing a sigh of relief. Measures taken earlier this month narrowly averted a stock market crisis triggered by the income tax authorities' seizure of stock worth Rs1.5bn traded by Harshad Mebta, the broker at the centre last year's Bombay securities scandal.

Traders were reminded of the dark days when the markets came to a standstill after an edict froze the shares that Mr Mehta had traded in the 14 months before the scandal was uncovered.

A crisis may have been avoided but the pressure to eliminate the chaos of India's bourses is still intense.

The ruling Congress party – which is eager to ride on the sncces of its economic policies in elections in four provinces later this year – is particularly keen to see capital overseas flowing into the country.

But foreign portfolio investors want to see the modernisation and regulation of the bourses before buying heavily in Indian stocks.

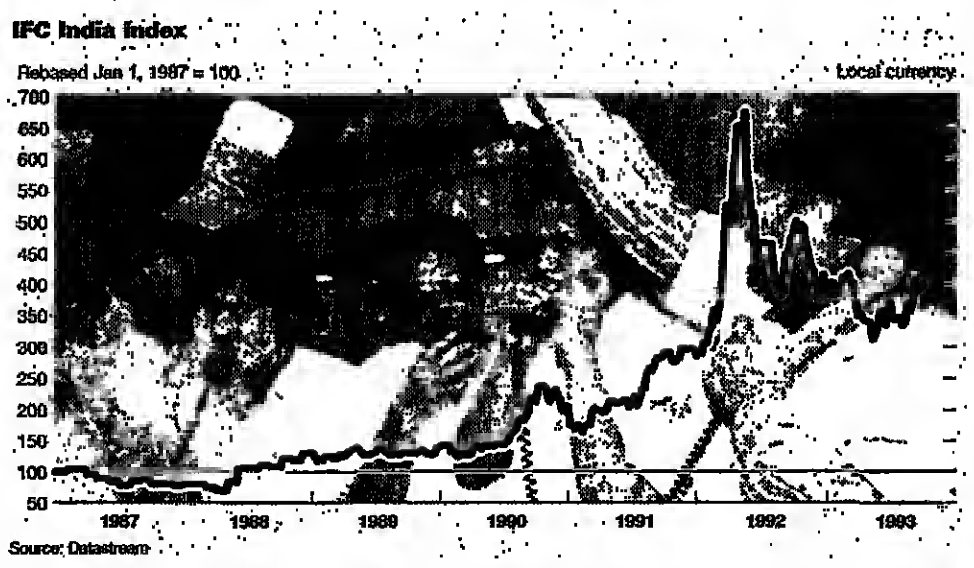
New Delhi opened its doors to foreign investment a year ago but only $150m has come in so far and another $200m is in the pipeline. This represents only a fraction of the Rs1bn official projection.

Several events have weakened the confidence of overseas investors in Indian markets – a series of bomb explosions in Bombay in March this year, the sacking of a mosque in Ayodhya by Hindu extremists and the Bombay securities market scandal, which surfaced last April.

Bombay, founded in 1875, is the largest and oldest of India's 21 stock exchanges and it accounts for about two-thirds of India's trading value. The other main exchanges are Calcntta, Delhi, Madras and Ahmedabad. Bombay has been averaging 45,000 trades a day – the same as the London Stock Exchange – and at the peak of activity 18 months ago, it ran at double that rate.

Brokers in Bombay, who once catered to a bandful of speculators and 2m investors, are now being asked to serve, either directly or indirectly, 25m. The number of investors is forecast to double in fivs years. The number of companies listed has swollen to more than 5,000 and 350 new firms are added every year.

Yet the Indian financial markets remain inadequately supervised and archaic in their procedures. Restoring order to



Source: Datastream

this chaos is no mean task for the SEBI.

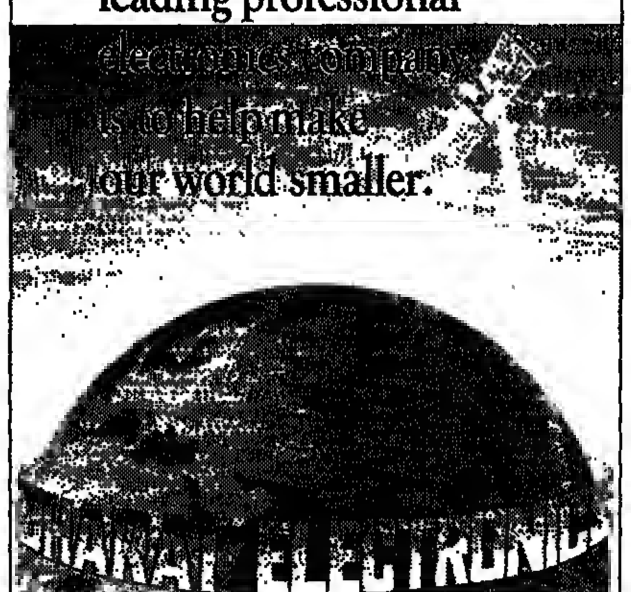
Its action is three-pronged:

- To bring brokers all ovar the country under its control by asking them to register with the SEBI. However, the introduction of hefty registration fees last Novsmber brought brokers out in protest, claiming that the turnover-linked fee was a tax on their income and had stalled the registration process.
- To introduce capital adequacy norms. Brokers are undercapitaliaed and are denied access to bank finance, whicb the Reserve Bank of India, the central bank, fears will be diverted for stock speculation. Indian brokers not only serve investors but also do business on their own account.
- To bring corporates into a market dominated by proprietary firms and partnerships. The entry of corporates is linked to a change in stock exchange regulations, which at present demand unlimited liability of members. Mr G.V. Ramakrishna, SEBI chairman, says transparent limited liability is preferable to unlimited liability that is not quantified.

Last month, the government reconstituted tbe Bombay exchange in an attempt to break broker resistance. It nominated four members to represent investors, the corporate sector and the public on the nine-member board, giving the executive director a casting vote in the event of a tie.

The SEBI has enhanced its vigilance after the securities scandal and now probes every sharp rise or fall in share prices. But brokers are angry at what they say is unwarranted intervention in their business.

R.C. Murthy



Foreign institutions scent rich pickings, says **Stefan Wagstyl**

A time for consolidation

FOREIGN financial companies sniff rich pickings in India. But they are wary of the time it might take to profit from the country's growing appetite for financial services.

Indian businessmen are in some ways ideal potential clients for world-class financial services, because India already has a fairly extensive range of financial products.

In practice, newcomers face serious difficulties: Indian regulators are steadily dismantling the restrictive controls which have cramped the financial markets, but they are often hesitant.

The pace of change has been slowed by last year's scandal in the Bombay securities market, in which money was illegally siphoned out of banks in the stock market using fake documents. In particular, the Reserve Bank of India, the central bank, was generally favourably disposed towards foreign banks. But the foreign banks' role in the scandal has made the reserve bank very cautious about promoting the interests of foreign companies.

Banking is the one section of the financial markets where foreign groups have been allowed to operate throughout the period in which India closed its economic doors to the rest of the world.

The former British colonial banks – Standard Chartered Bank, Grindlays Bank (now ANZ Grindlays) and Hongkong and Shanghai Banking Corporation – as well as Citibank of the US and about 20 other foreign banks were permitted to remain under foreign control even when domestic banks were nationalised. However, their expansion was severely restricted, so they now have a small fraction of the market.

Nevertheless, by offering better services than local banks and access to foreign financial networks, foreign banks have established a lucrative position at the top end of the market for both corporate and individual customers. India's regulated interest rate structure – which guaranteed banks large spreads – brought easy profits.

But the onset of financial deregulation, including interest rate reform, is cutting those margins and forcing banks to expand value-added services. Also, the uncertainty caused by economic reform has made many Indian companies wary about borrowing money, so loan demand is slack. But the restructuring of many companies has increased the need for other services, such as merchant banks.

Mr Barry McCance, who heads the Indian operations of ANZ Grindlays, says this is a period of consolidation for foreign banks as they deal with the aftermath of the scandal. He believes they have important competitive advantages, notably access to expert expatriate staff, the ability to train Indian staff overseas and bring the latest products into India.

The reserve bank has recently invited

The Bombay stock exchange admitted its first corporate member this year

entrepreneurs to apply for permission to establish new privately-owned banks in India. No large foreign financial services group has applied. But several foreign financial groups have started to establish themselves in other areas.

For example, in stockbroking, Jardine Fleming, the UK/Hong Kong investment banking group, last year opened an office in Bombay, which now has about 25 staff.

Other stockbroking groups which have set up shop in India include James Capel of the UK, W I Carr, the broking arm of Banque Indo-Suez of France, and Nomura Securities from Japan.

The brokers are closely watching the activities of foreign financial institutions which have been permitted to invest directly in the Indian stock market since last year. About 55 institutions have been approved, with many more candidates in the pipeline. However, only about six are actively investing in the market.

A handful of foreign financial companies have invested in joint ventures or cooperation agreements with Indian partners.

This year, GE Capital, a subsidiary of General Electric of the US, has set up a joint venture in consumer finance with Housing Development Finance Corporation, a public sector mortgage bank. J P Morgan, the US investment bank, has signed a joint venture in financial services, including merchant banking, with Industrial Credit and Investment Corporation of India, a part-private part-public development bank.

Two Hong Kong-based financial services groups have also forged similar tie-ups – Asian Capital Partners with the Industrial Development Bank of India and Peregrine Investments with ITC Classic Financial Services and Enterprises, an affiliate of ITC, which is in turn a subsidiary of BAT Industries, the diversified British group.

Fund management is also attracting foreign interest because India is ending the near-monopoly enjoyed by the Unit Trust of India. Two US groups have signed agreements with Indian partners – Pioneer Management Corporation with the Investment Trust of India and Alliance Capital Management with the Investment Trust of India. In insurance, Sun Life of the UK has a joint venture with the Life Insurance Company of India to sell life insurance to Indians living in Britain. It plans a similar partnership in India.

Not all the investments are new. Among merchant banks, Lazard Brothers of the UK has had a stake since 1985 in Creditcapital Finance Corporation, a joint venture with Mr Udayan Bose, a banker and Creditcapital's chairman. Creditcapital now employs 200 people in corporate advisory services.

However, it has taken Mr Bose eight years to reach his present position near the top of the Indian merchant banking market. Newcomers cannot expect to join him very quickly. Apart from the official regulatory restrictions, there are numerous unofficial and informal barriers. For example, the Bombay Stock Exchange, dominated by individual brokers, has only this year admitted its first corporate member. Foreign corporate membership is still some way off.

Profile: INDUSTRIAL CREDIT & INVESTMENT CORP. OF INDIA

A giant is on the move

LIKE India itself, the Industrial Credit & Investment Corporation of India is slowly moving out of its shell, writes STEFAN WAGSTYL.

Its history reflects the economic history of post-independence India. It was established in the 1950s with capital from private financial institutions in order to channel long-term funds into private industry in the best tradition of a development bank. In the late 1960s and 1970s it drifted into the public sector as its main shareholders were nationalised.

In the 1980s, it hesitantly began to look at new ventures, as the government gradually began to encourage greater private initiative. Today, it is hurrying to take advantage of government reforms.

"From a long-term lender, we are emerging into a comprehensive financial services group," says Mr N Vaghul, the chairman who has led the bank since 1985. Like other energetic business leaders of his generation, Mr Vaghul, who is 56, is in a man in a hurry. He acts as if he has to make up for the time lost when socialist-inclined planners ruled the economy.

Mr Vaghul says that the biggest change of the last two years for ICICI is the decline in the state-owned institutions' share of the ownership from 82 per cent to 35 per cent. "The most important thing is that we have acquired 500,000 shareholders." At the same time, Mr Vaghul is presiding over a rapid expansion of business activities: ICICI, the core company, is diversifying from long-term loans into leasing, short-term loans and asset-based credit. SCICI, or the Shipping Credit & Investment Corporation of India, an affiliate which was set up to finance shipping and fisheries, is also turning into general purpose finance.

The group has moved into investment banking with ICICI Securities and Finance Company – a 60:40 joint venture signed earlier this year with JP Morgan, the US investment bank. ICICI is also launching an asset management company which will manage mutual funds and is planning a stock broking business.

It is expanding a venture capital business which started in the late 1980s and next year is launching a commercial bank.

ICICI's revenues have been growing at more than 30 per cent a year to Rs14.9bn in the year to the end of March. Pre-tax profits totalled Rs2.3bn, including profits from capital gains. The bulk of revenue comes from lending. The capital reserves total Rs12.06bn, enough to sustain assets of Rs123bn and yet keep a comfortable capital adequacy ratio of 11.7 per cent.

Despite the decline in the share of state-owned institutions in the equity capital, Mr Vaghul maintains close links with the government. He says ICICI has "relative autonomy".

Western bankers might frown at such a cosy relationship. But their colleagues from Japan and other east Asian countries would find ICICI a very familiar animal.

INVESTMENT FROM BRITAIN

Where are the expatriates?

LIKE unwilling guests at a feast, they are reluctant to come to the table. Even when they do, they don't really want to taste the delicacies.

This just about sums up the attitude of Indians to overtures by the Indian government to invest in their motherland.

Chinese success is in complete contrast to the Indian experience. "India can never become China," said Mr Manmohan Singh, India's finance minister, after a recent meeting with London's wealthy NRIs (or non-resident Indians).

"Unfortunately, there are not too many Indians flourishing outside India. Besides, the Chinese programme began in the 1970s. We started much later. Even in 1986, the reform programme was very limited. Today we have a greater canvas."

But its colours may not be rich enough. The lack of seriously wealthy people is just one factor. Lack of industrial entrepreneurship is a greater hurdle.

Almost without exception, Indian businessmen who come to the UK – both from India and East Africa – start out as traders and shopkeepers. Many get into real estate. Some into catering and hotels. Few are able to change their mind-set.

"If they find it difficulf to make the transition from being a trader to an industrialist in the UK, how can they do so in India?" asks Mr Raj Kumar Bagri, chairman of the £350m Metdist Group and the London Metal Exchange.

Mr Bagri is one of the very few NRIs to have jumped this barrier – in rags-to-riches style. He reached London with £2,000 in his pocket in 1959. Today there are Metdist offices in the UK, India, Canada, Nigeria and Malaysia, though the group's biggest manufacturing concerns are in Malaysia, where it runs a 85,000 tonnes a year copper rod and wire mill and a highly sophisticated $50m integrated copper tube plant supplying the air conditioning industry.

Lack of industrial entrepreneurship is compounded by a perceptible lack of interest in India among second generation immigrants. Brought up in the UK, this jeans generation is not bound to India by the same feelings as their parents. Increasingly they will be responsible for investment decisions. Some have already stepped into top management, others are waiting in the wings. Most simply do not want the hassle of learning about and dealing with a notoriously difficult country.

"Once I am out of the picture, I doubt if my sons will have the same enthusiasm for India which I have," acknowledges Mr Swraj Paul, chairman of the Caparo Group, a privately owned £330m steel products group.

Mr Paul, 61, emigrated from India to the UK in 1966. Today, his three sons run the 17-company business on a day-to-day basis.

Over the past 10 years, Mr Paul has proposed – unsuccessfully – several major projects in India, including a Rs7.5bn fertiliser plant at Shahjahanpur, Uttar Pradesh and the Rs60bn rehabilitation of the Indian Iron and Steel Co at Burnpur, West Bengal.

Unperturbed by his failures, his latest ambition is to build a Rs64bn 1.5m tonne a year integrated steel plant at Daitari, in Orissa. "I would prefer a smaller project in India, say one requiring just $1-$2m. I love India, but sometimes I wonder why we are wasting time there," says Mr Angad Paul, 23, revealing the enormous gap between his father's ambitions and his own. Currently, Paul junior is cutting his business teeth by setting up a small plastic extrusion plant in the UK.

On occasions when parents do gain the support of their progenies for Indian adventures, NRIs find they are unable to cut though India's thick red tape.

"The spirit of reforms has yet to percolate through the bureaucracy and to state governments. A core of dedicated civil servants must be identified if foreign investment is to increase," says Mr Gopichand Hinduja, one of the four brothers who founded the estimated £1bn Hinduja Group. The mainly trading conglomerate already runs India's second largest truck manufacturer (Ashok Leyland) and hopes to promote a power plant, an oil refinery, a lubricants company and a financial services firm in India, besides enhancing Ashok Leyland's product range.

While local Indians take petty hassles in their stride, dealing with the Indian bureaucracy is much more frustrating for NRIs who commute thousands of miles between their headquarters and India.

"Despite liberalisation, the implementation of any project in India is still like entering a hurdle race when it comes to sorting out details with state and local authorities on infrastructure, local taxes and ralated issues," says Mr Bagri. "You have to take India on trust." Mr Bagri has certainly done so. His project is one of a handful which may take off shortly. These include:

- a Rs2bn 150,000 tonnes a year copper smelter and refinery by the Metdist Group. The plant will simultaneously produce 450,000 tonnes a year of byproducts and sulphuric acid. It will also have its own power station.
- a Rs60bn 2x500 megawatt thermal power station to be developed by the Hinduja Group in collaboration with UK's National Power.

Located at Vishakhapatnam, in Andhra Pradesh, the project is at an advanced stage.

- a Rs1.86bn 200,000 tonnes a year cold rolled sheets and coils plant by the Comcraft Group. Located at Palej, Gujarat, the plant is ready for commissioning.

The pitifully small number of projects highlights the fact that out of the approximately 820,000 Indians living in the UK, few have the ability, the money or the interest to invest in India's future.

Gita Piramal

Profile: MARUTI is a showpiece company, with a Japanese flavour

Cars by the million

THE factory of Maruti Udyog, India's largest auto maker, is a showpiece of Indian industry. The company, a joint venture between the government and Japan's Suzuki Motor, builds cars to Japanese designs, using Japanese equipment and a liberal eprinkling of imported Japanese parts. Seven Japanese engineers are on hand to give advice. If India cannot make world-class vehiclee here, it will find it difficult to make them anywhere.

Since the plant went into production 10 years ago, nearly 1m cars have rolled off the production lines at the purpose-built factory outside Delhi. Over time, the Japanese content of the best-selling model – a cheap and cheerful 800cc compact – has fallen from over 90 per cent to just 5-6 per cent. Maruti 800s have been sold abroad, albeit in small quantities, not just to developing countries but also to France and Italy.

Nevertheless, even with e decade's experience behind them, Maruti managers are unable fully to convince their customers that they have reached world-standards in quality. Mr R C Bhargava, the managing director, admits that in the second-hand market older Marutis, with a higher Japanese content, command a premium over newer cars. He says: "Our cars are 90 per cent as good as the cars made by Suzuki in Japan, We want to reach their level but are not there yet." The commitment to quality is visible in the factory. Japanese-style slogans hang over the production lines – "Let's work together and achieve our goals," says one. "Fight absenteeism," says another. Boards on the walls give detailed information on quality performance, with the numbers up-dated every day.

No-one pretends that the factory has reached Japanese levels of efficiency. The lines do not move as fast or as smoothly as in Japan. Around the factory components are piled high in boxes awaiting assembly.

Just-in-time manufacturing is impossible given the slowness of the Indian transport network. Nevertheless, as far as in-house production is concerned, the gap between India and Jepan is slowly being closed by training: avery year, about 100 Maruti workers spend six mooths working in Japan. One engineer says the main thing they learn is not technical knowledge but Japanese work habits. "You can see the difference."

The factory has an engine plant – but virtually all the other componeots, including key items such as steering and transmission syetems, are bought from outside suppliers. From the earliest days, deficiencies in quality often originated from defective parts – and they still do. To raise quality, Maruti has invested in six joint ventures with suppliers of all its key components – to secure a managerial voice in the running of their operations. Mr Bhargava says that improving the quality of bought-in components has been "the major effort all these years".

Maruti has invested in joint ventures with six suppliers

Production costs are also a concern for Mr Nandy. At an ex-factory cost of about Rs106,000 (166,000 on-the-road with taxes), Maruti 800s are cheap by world standards. The price is kept down partly in response to pressure from the government which would like to put the car within the reach of as many Indians as possible. So profits are squeezed. Maruti made just Rs366m pre-tax profit in the year to March 1993 on sales of Rs22.22bn.

Until now, Maruti has had the luxury of operating in a market with very limited competition. Its main rivals have been restricted by India's autarchic industrial policies from importing technology to modarnise their output. For example, the venerable Ambassador, made by Hindustan Motor, is little different from the 1950s Morris Oxford on which it is based. Premier Auto, in Bombay, makes models based on 1960s and 1970s Fiats. Not surprisingly, Maruti has over 70 per cent of the auto market. It sells every car it makes with little marketing. Often customers must pay in advance and wait two or three months for delivery.

With the liberalisation of the Indian economy, Maruti could now face real competition. Earlier this year, Delhi removed government controls on investment in the auto industry. Hindustan Motor is talking to General Motors of the US about manufacturing the Astra model and Premier is planning a link with Peugeot of France.

But Maruti has plenty of time to prepare for the onslaught. Its rivals' plans are some way from fruition. Also, they concentrate on mid-sized cars – not direct competitors to the Maruti 800.

In the meantime, Maruti is in the midst of expanding its plant capacity from 130,000 cars a year to 250,000 in two or three years. It is also enlarging its model range – as well as the staple Maruti 800, the factory has for several years also made jeeps and small mini-buses. Three years ago it launched a 1000cc mid-sized car and this year it introduced a sporty-looking 1000cc compact, which will be by far the fastest home-made car on Indian roads. The launch of the new car called the Zeo has created a big stir in India, even though only 2,000 will be made before next March and all these cars have been sold.

A modest rise in exports is planned – 'in order to experience competition'

Maruti is also planning a modest expansion in exports. It has been exporting since the mid-1980s, with a peak of 23,000 vehicles in 1991-92, falling to 14,600 last year. Mr Bhargava says the main purpose has not been to increase sales, though export revenues bave been very welcome, but to raise quality by exposing Maruti to foreign competition.

Indeed, so satisfied are Suzuki's Japanese managers with the improvements in the quality of Maruti's exports that next year they intend to sell the Zen car in Europe under the Suzuki label, a first for an Indian-made car.

Stefan Wagstyl

■ ELECTRICITY

Lights are going out all over India

DAY after day, India's city-dwellers are reminded of the country's desperate need for power. In the summer months, when temperatures can soar as high as 45 degrees celsius, air-conditioners shudder to a halt, rooms are plunged into darkness, and those industries which cannot afford to run their own generators grind to a standstill for yet another power cut.

Not even the Prime Minister or the usually-pampered VIPs escaped the power cuts in New Delhi this summer. Much to the embarrassment of the authorities, Prime Minister P.V. Narasimha Rao's home was without electricity for several hours. Other residents of Delhi were deprived of power for much longer and more frequently: they showed their displeasure more visibly by beating up employees of the Delhi Electricity Supply Undertaking (DESU).

Acute power shortages afflict much of urban India in the summer months. The power sector simply cannot meet the combined demands of India's industrial, agricultural and residential consumers as investment to the power sector has failed to keep pace with the country's economic development.

India has installed capacity of 72,000 megawatts (MW) and the government expects to add a further 31,000MW to its 1992-97 economic plan. But even then, it estimates that by the end of 1997 shortfalls to energy will range from 9 to 21 per cent. As the government cannot afford to meet all of the country's power requirements itself, it decided in 1991 to encourage private sector participation in new power generation and distribution projects, wooing investors with an array of financial incentives. These include a five-year tax holiday on profits and lower duties for the import of power equipment.

Even so, the private sector has been quite slow to sign up. The individual state governments have offered power projects amounting to more than 33,000MW in capacity to private sector companies. But, while the private investors are clearly interested in some of the proposals, they still have a number of concerns.

At present, 46 coal, gas and hydro-electricity projects are being discussed, with a total capacity of 25,120MW and involving an investment of about Rs760bn (about $25bn). Among the foreign participants who have either signed agreements, or who are close to doing so, are Cogentrix and Enron Power of the US, and Siemens of Germany. Power officials have been busy with roadshows around Asia, the Middle East, the UK and the US in the hope of drumming up more overseas interest to power projects.

The peak summer demand from industry, homes and agriculture is simply too high for the system

Foreign investors have been pushing the government for additional work. The decision to turn to the private sector, however, ignores the simple fact that India has plenty of scope to improve its existing power generation and distribution system.

"Instead of investing money in new projects they should improve the efficiency of the existing plants," says Mr Shekhar Singh, an environment expert at the Indian Institute of Public Administration, who says that "huge" savings are possible.

Some effort is being made to do this by renovating and modernising power plants and distribution systems. However, one senior official in the Ministry of Power expressed disappointment at the lack of private sector interest in such renovation projects, even though, he claims, "investors would be putting to less money than for new projects plus they would see a higher return: there's less risk involved and less money up-front".

But as one foreign company which specialises in this area says: "it makes considerable sense to increase the effectiveness of installed equipment; but while renovating plants will increase supply, it won't fill the gap."


An appeal to Delhi's citizens – but how many will respond?

Energy experts point out that India needs to do more to improve the efficiency of the distribution network provided by the SEBs. More than a fifth of transmission and distribution losses in India are due to stealing and inefficiency – a poor record by international standards.

"Electricity has been handled as a social commodity meant to be doled out in exchange for votes – it's either subsidised or free", says Mr S.V. Joshi, director of the power generation and distribution systems division at Siemens, India.

In some states, including Tamil Nadu, farmers receive free electricity because the cost of collecting exceeds the amount due. While to a big city such as Calcutta, the private-sector Calcutta Electric Supply Corporation collects 92 per cent of its revenues within 15 days of them falling due, in the rural areas revenue collection is far more difficult to conduct.

"Twenty years ago, agriculture only consumed about 18 per cent of the power supply: today it accounts for 42 per cent of consumption," says Mr N. Ramji, joint secretary at the Ministry of Power's Investment Promotion Cell. Most of thet is used in irrigation schemes, in areas such as the Punjab and Uttar Pradesh. Many slum-dwellers simply steal electricity by hooking up to overhead cables.

Many of the SEBs, which are responsible for generation and distribution, have a reputation for being poorly managed, overmanned, and corrupt. The Economic Times, an Indian newspaper, recently reported that the SEB in the state of Bihar was so overstaffed with 42,000 employees that 80 per cent of its budget was spent on staff salaries. Bihar may be one of the worst examples, but officials admit privately that many of the SEBs need to improve their performance. The problem is that traditionally the public sector has been reluctant to rationalise through job-cuts, a sensitive issue.

The final way in which India might improve its energy use is through conservation and the use of more energy-efficient equipment, in the home, the factory, and the field. Solar powered irrigation pumps have only recently been introduced in Rajasthan, and environmentalists are keen to see wider use of solar energy.

DESU has billboard announcements and advertisements imploring people not to consume too much electricity, though the request to turn off air-conditioning in summer probably falls on deaf ears.

Environmentalists argue that what is needed is a pricing system which discourages the use of electricity at peak times, and which reflects the actual cost of the electricity supply. "Electricity is far too cheap, there are no incentives to save it" complains Mr Singh.

Sara Webb

Under fire from imports - an open-hearth furnace in the melting shop of the Durgapur plant, West Bengal Picture: Ashley Ashwood

Steel makers face escalating competition, says **Kunal Bose**

The furnace gets hotter

FOR A sector whose product pricing and distribution were for so long tightly controlled by the federal government, India's steel industry has been quick to respond to the free market challenge following the lifting of controls in January last year.

Imports of steel have become easier with the lowering of duty across the board and the government is likely to reduce the import tariff even further in the next budget.

The Steel Authority of India Limited (Sail), a state undertaking, and Tata Iron and Steel Company (Tisco), which in the past operated in a highly protected market, are putting as much effort into selling steel as producing it.

Fears that the main producers such as Sail and Tisco would raise steel prices sharply following decontrol have been proved wrong. Relaxation of prices and distribution coincided with the domestic recession in the demand for steel which meant steel prices could not be raised arbitrarily. Moreover, Indian manufacturers are now competing in the domestic market with imported products.

"The Indian steel industry can no longer operate on a cost plus basis," says B. Muthuraman, director of marketing of Tisco. "It will have to protect its margins by improving operational efficiency and controlling costs. The consumer now has the option of importing anything. The domestic industry knows it could be outpriced by imported material."

While Indian producers have so far withstood competition from imports, they also have succeeded in raising export sharply from 380,000 tonnes in 1991-92 to 900,000 tonnes in 1992-93.

Exports are expected to rise to 2.37m tonnes in the current year. According to the ministry of steel, export income from steel in 1993-94 will be Rs17bn, while imports will cost Rs16.95bn, making India a net exporter of steel.

U. K. Mittal, executive director of Sail, said the sharp rise in exports could be attributed to the large-scale buying of steel by China and the devaluation of the Indian currency. China has, however, recently reduced its steel imports. "We are aware of the risk of depending too much on a single market. We think we should be able to find buyers in West Asia and Taiwan," Mr Mittal said.

Tisco has taken a different approach. Instead of heavy dependence on China, it has nursed markets such as west Asia, Taiwan, Thailand, Sri Lanka and Nepal. Tisco's Mr Muthuraman said India should progressively reduce the shipment of billets and raise the export of value added items such as wire rods, structurals and plates.

India is not aiming to be a leader in the international steel trade. Its export target is about 5m tonnes of steel by the turn of the century when domestic demand for the metal will be 30m tonnes, against about 18m tonnes now. The focus for exports will be the Pacific Rim countries where the demand for steel is expected to grow fast.

With the throwing open of the Indian market to imports the indigenous industry is finding it needs to pull itself into shape.

There is a "substantial overhang of obsolete technology and equipment in the Indian steel industry, resulting in a relatively higher cost of production and a product quality short of international standards," says Dr J. J. Irani, managing director of Tisco.

Controls on integrated plants using the blast furnace route of steel production meant sufficient resources could not be generated to modernise and expand. As a result, the industry has not been able to benefit from technological breakthroughs in steelmaking.

The Indian industry which until the mid-1960s was highly cost competitive, now uses 50 to 100 per cent more energy than steel producers elsewhere. Energy inefficient open hearth furnaces need to be replaced by basic oxygen furnaces while the share of the highly cost-effective continuous casting method needs to be greatly increased from the present 25 per cent.

Indian steel, which was competitive in the 1960s, now uses 50-100 per cent more energy than most of its rivals

Indian blast furnaces now produce 1.2 tonnes per cubic metre of steel compared with the world average of 2 tonnes.

Dr Irani believes a 30 per cent improvement in productivity over a five-year period would permit production of an extra 4m tonnes of hot metal from existing Indian blast furnaces.

Sail's seven-year Rs150bn capital expenditure programme and Tisco's phase III modernisation and capacity expansion to 3.05m tonnes by 1995 will eliminate many of the weaknesses of integrated steel plants. But low labour productivity and overmanning of steel plants will remain a problem. Indian productivity is 30 to 85 ingot tonnes per man per year, against about 400 ingot tonnes per man per year in efficient steel-producing countries.

As a result, India is not able to take full advantage of its cheap labour. Rationalisation of the labour force will be possible only when the federal government has mustered the courage to introduce its much debated exit policy.

Controls have also created serious distortions in the secondary steel sector which includes units making steel in electric arc furnaces (EAFs).

EAFs are normally used to produce high value special and alloy steel. In India, however, EAF units, which were not covered by price and distribution controls, took the easy route of producing mild steel. EAF units account for more than 30 per cent of the Indian steel industry's capacity of 26m tonnes.

The removal of controls has played havoc with the EAF units. "Nearly 50 per cent of EAF capacity is lying closed," Mr Alak Saha, joint director of marketing at Tisco, said. "The EAF units can no longer indulge in the luxury of using imported scrap and expensive power to make mild steel. Only the ones producing special and alloy steel such as Mukund and Mahindra Ugine will survive in the long run."

Before the introduction of reforms, the state sector was the force driving the creation of steelmaking capacity. Now the federal government says that, except for modernising existing plants, it will not invest in new steel projects.

But India needs to produce a lot more steel. Its per capita consumption is only 25 kg against the world average of more than 150 kg. The government has identified 25 sites in 10 states where the private sector can set up new steel plants incorporating the latest technologies.

The private sector has come up with 16 major investment proposals, the most ambitious being the 3m tonne capacity steel plant to be set up by the Caparo Group of the UK at Daitari in Orissa.

Mr Swraj Paul, chairman of Caparo Group, says: "We will bring the latest technologies to India. Ours will be a model project."

The steel ministry says these projects will see the light of day provided they are offered a suitable package of incentives, including the import of plants and machinery at a low rate of duty and exemption from tax in the first few years of production. The finance ministry has to nod in agreement.

■ **Profile:** THE ESSAR GROUP

When 13 is lucky

Shashikant and Ravikant Ruia: global ambitions in South Bombay

THE BROTHERS Shashikant and Ravikant Ruia are a superstitious pair. They assiduously avoid travelling on the same aircraft, and 13, they believe, is their lucky number. The corporate headquarters of their Essar Group – with annual sales of Rs10bn – are housed on the 13th floor of an office block at the Nariman Point, South Bombay's premium business district.

The global ambitions of Essar (a name derived from the brothers' first initials) have borne fruit. With annual sales of Rs4.45bn, the group Essar Gujarat operates the world's largest gas-based, hot briquetted sponge iron plant (with an annual capacity of 1.76m tonnes), at Hazira, an industrial township on the western coast. In August this year the company made its debut in the international financial markets with a $75m Eurobond issue that was over-subscribed seven times.

The next big venture is a Rs52,000m, 9m-tonne project in oil refining, an area recently thrown open to India's private sector. Additionally, Essar has put in bids for exploration of 13 oil blocks of which two are in partnership with Occidental Petroleum of the US. Essar has the experience. Two years ago it won onshore drilling contracts from Shell in Oman and Petromina in Indonesia.

The Ruias belong to a breed of nimble-footed businessmen who over the past decade have risen from oblivion to the front ranks of Indian business, displaying more dynamism than old established groups such as Tata and Birla.

Starting with a small inherited shipping agency exporting iron ore in the early 1970s from their base in Madras, the Ruias moved into marine construction and offshore support services and then further afield. Today, group gross fixed assets are Rs41.8bn, net profits collectively Rs2.3bn and market capitalisation Rs40bn.

All this is generated from four core areas: steel, shipping, oil and services. These fit in nicely, they say, with the country's core sector, national priorities and their own competencies. In the past, critics have pointed to the Ruias' skill in winning friends in high places. The state Oil and Natural Gas commission has been a loyal customer for drilling rigs and offshore supply vessels, for example.

Such assured custom cannot be expected in the more open markets of the 1990s. The Ruias say they are ready for competition since international market dynamics have always dictated their businesses. The aim, explains younger brother Ravi Ruia, has been "to create worldscale capacities and absolutely ensure that we have a competitive edge on a global basis".

The Ruias display a keen entrepreneurial instinct for spotting a good business opportunity – even in fields that they are unfamiliar with. This brashness has been more than matched by their ability to learn fast. In marine construction, Essar started out as a contractor for Brown & Root and ended up as an equal partner with the marine engineering company when they jointly undertook construction of an underwater pipeline from Bombay High oilfield to the coast of Gujarat.

Much of their fleet of bulk carriers and offshore vessels were picked up when shipping was at an ebb and prices down and two years ago the Ruia bought into the profitable South India Shipping Company in which they now hold a 30 per cent stake.

Their hunch that economic growth would fuel demand for steel prompted their decision to get into sponge iron, an alternative raw material to expensive, imported scrap. The plant was picked up from Emden of Germany at a bargain price of DM27m (£10.80m) and put up in a record 24 months.

From this followed a downstream plunge into hot rolled coils, a form of semi-finished steel for export markets.

The brothers are moving further downstream having set up Steelco, a joint venture with another private group for the manufacture of cold rolled coils. Similar joint projects are being planned in Indonesia, Bangladesh and Saudi Arabia.

This global focus has not made them lose sight of the domestic market. "This is our base. India itself offers tremendous opportunities. And liberalisation has only opened up new areas for us," says Ravi Ruia.

Essar has entered the growing financial services industry with its company India Securities which offers lease financing and bill discounting among a range of activities. The group is also building a 350MW power project in Surat, in Gujarat, which will be for captive use for its steel plant.

All these ambitions add up to a mammoth investment of Rs100,000m over the next five years. The group has relied on equity rather than expensive debt. Since 1985 the Essar group has mopped up Rs17,260m from half a dozen issues. The brothers have responded to criticism that the group is too centralised with a management restructuring last year. A profit centre system was put into place wherein authority was devolved to division heads.

But Essar remains a family affair. Five years ago Shashi Ruia's son Prashant Ruia, a commerce graduate was drawn into the business and is now in charge of Essar Oil. The brothers say they have a perfect understanding in the workplace (Shashi is the operational man and Ravi assesses new projects) where they sit at opposite ends of the boardroom-sized corner office that they share. "We can't think without each other," says Ravi.

Naazneen Karmali

■ CIVIL AVIATION

On a wing and a smile

EARLY this year I arrived a few minutes late at Bombay Airport for an Indian Airlines flight and was told to come back for the next flight the next day. Though other passengers were still standing at the security check, I was not allowed to join them.

Last month, I reached the airport 15 minutes before take-off and was escorted on to the aircraft.

Few Indian industries have changed so fast since the onset of economic liberalisation as aviation. Since private airlines started operating regular services at the end of last year, the quality of air travel has changed out of all recognition in India.

This shows how quickly competition can improve services even when the private operators are small in comparison with the state-owned enterprise. The most telling lesson has been the improvement in Indian Airlines' own services.

"Competition is working. It is changing us," says Mr K. Lal, commercial director of Indian Airlines. "They [the private companies] are not a threat but a challenge. We have to show we are professionals."

Indian Airlines has no time to lose, for the government last month allowed foreign airlines to invest in India's privete operators. Competition is bound to hot up if the private companies are able to secure support from foreign airlines, with their long experience of international service.

Already one company, Jet Airways, is seeking permission for Gulfair and Kuwait Airways to invest in its expansion. Mr S. Kanungo, the civil aviation ministry's top bureaucrat, called last month for foreign investment in the aviation sector. He said such investment offered "attractive returns, particularly due to India's vast tourism potential and liberalisation measures initiated in the past two years".

Four airlines have emerged as serious rivals to Indian Airlines – Jet, East West Airlines, Damiana Airways and Modiluft. Together they now have about 20 per cent of the domestic passenger market. But on the lucrative routes between India's main cities their share is 37 per cent, according to Indian Airlines' figures. The private operators will do even better as they bring more aircraft into service. Modiluft, for example, has just two jets leased from Lufthansa, the German carrier with which it has a collaboration agreement.

Among the improvements pioneered by the private operators are on-time flights, flexible check-in services, in-flight-drinks, top-class meals and smiles from the cabin staff.

They have ceptured the imagination of travallera despite various bureaucratic hurdles still in their way. The Air Corporation Act of 1953, which bans private companies from operating scheduled services, is still in force. It is due to be amended in parliament later this year. Until then, the new companies cannot openly advertise their timetables.

"The government has given us permission to operate, but not to advertise our schedules"

One private airline owner complains: "The government has given us permission to operate to schedules, but we are still not allowed to advertise our schedules. What's worse, we are misleadingly called 'air taxi operators' even though we are for all purposes, full-fledged private airlines."

MPs loyal to Indian Airlines and its powerful trade unions are fighting a rearguard action to protect the airline. But they can at best delay change, not reverse it. The real battle is now in the skies.

Indian Airlines, which lost Rs2.11bn in the year to last March and has not made a profit since 1988, has little money to spend on a price war. So, as Mr Lal says, it must improve quality.

The airline has improved its time-keeping. It has extended computerised check-in facilities. It has introduced better food and drink services (although it is not serving alcohol) and it has put staff through an intensive course in service.

Mr Lal says that simple things make a big difference. He picks up a file and holds it in front of him like a tray. You can serve drinks like this, he says, with a scowl on his face. Or like this, his mouth opening into a broad smile.

Then Mr Lal picks up the telephone. You can answer a call like this, he says, growling into the receiver. Or you can answer it like this: "Good morning, this is Indian Airlines. How can I help you?"

Indian Airlines is also rethinking its marketing. It is introducing long-distance fares which give passengers a discount if they travel the whole way by Indian Airlines and is launching package holidays. It has signed an agreemeot to join Mega Sierra, an international computerised booking network. And it is planning a frequent flyer programme.

The airline can cope even with the possible advent of foreign airlines into the domestic market, says Mr Lal. "If foreign airlines are permitted to compete, we would like to co-operate with foreign airlines too."

The big cloud on Mr Lal's horizon is relations with the trade unions representing the airline's 22,000 staff. For the last two years, the pilots have called strikes in the winter in support of demands for better pay and conditions. The pilots complain that their counterparts at other airlines are more highly paid and want parity.

Last winter's strike cost the airlina dearly because it gave the private operators a free run at the market. Another strike this year could be ruinous because the private airlines are now operating on a larger scale. Mr Lal says: "I look at the future and it looks bright, as long as this winter passes off peacefully."

Stefan Wagstyl

Stefan Wagstyl evokes the squalor and splendour of Bombay

Hope amidst the misery

ON THE seafront road outside the Taj Hotel, the grandest of Bombay's Victorian palaces, small boys in rags run around passers-by selling postcards. To single men, they offer their bodies. "Just Rs200, sir. Rs100, sir. Please, sir."

Bombay combines the best and the worst of the changes which economic modernisation is bringing to India. As the city has swollen into the country's largest, so it has also become its richest. Land prices in central Bombay are as high as Tokyo's. It has traffic jams to match.

Bombay has brought enormous wealth to the few. For others it has brought nothing but misery. But even the poorest rarely go home because Bombay is still a city of hope. In the villages from which people still pour into the city there is often no chance of a paid job, no chance of betterment. In Bombay, there is at least the possibility of work.

Even in the city's largest public laundry, where 5,000 washermen daily pound clothes against stones with their hands, people think of the future. Mr Bhachan Ram Kanojla, aged 35, says he has mada enough money to send his 11 children to school. "I am a dhobi (washerman). My father and my grandfather were dhobis. But my children will do something better."

Since independence, Bombay's population has soared from 2m to at least 9m – the official total. Unofficial estimates put it at 11m. No-ona can connt precisely the millions living in putrid slums or the teos of thousands who sleep on pavements. As well as the people born in Maharashtra who lay first claim to Bombay, the city is home to immigrants from all over India.

Bombay's land prices are as high as Tokyo's. It has traffic jams to match

Bombay's heroes tend to be self-made men – entrepreneurs, criminal gang lords, film stars. The city often turns a blind eye to dishonesty in the knowledge that it is almost impossible to remain honest and become rich, powerful or famons. Take for example Mr Harshad Mehta, the stockbroker at the centre of last year's financial scandal, who has won and lost billions of rupees. Once he had a seafront flat with a mini-golf course and a fleet of 29 cars. Now he has nothing. Yet when he was released from prison after months of interrogation, crowds surrounded the jail gates to welcome him. He is still planning his comeback.

Until this year, Bombay's people mostly believed that the city's enormous energy would always pull it through the gravest hardships. But the inter-religious riots which hit Bombay after the sacking of the Ayodhya mosqne tore through this complacency. A city which prided itself on its cosmopolitan character was ripped apart by violence in which at least 700 died. A further 230 were killed by bombs in the world's biggest urban terrorist attack.

Studies showed that as well as an explosion of Hindu-Moslem hatred, the disturbances were fuelled by criminal and political groups trying to take advantage of the unrest. Shiv Sena, a local militant Hindn political party, was found to have played a part in organising the unrest. Moslem-led underworld figures orchestrated the bombings.

In the aftermath of the violence, the police launched an unprecedented blitz on the underworld, using the investigation into the bomb blasts as a pretext. Mr Sharad Pawar, the chief minister of Maharashtra state which has Bombay as its capital, has pledged to clean up the city, including the murky links between politics and crime. But few Bombayites believe these ties will completely disappear. Crime is too deeply embedded in the city's legitimate business life.

Beyond the unease about politics and crime, the city also falls prey to economic nncertaioty. Even as high-speed growth in finance, in international trade, advertising and other commercial services is creating white-collar workers, the city's industrial employment is shrinking. With its high cost of living, Bombay has hecome too expensive for factories. The number of industrial workers in Bombay and its hinterland actually fell in the 1980s by about 2m to 6m. With the closure of textile mills and other large plants, registered unemployment in Maharashtra has soared to 3m, 20 times more than in the 1960s.

Even foreign banks are finding Bombay too costly for their back-office operations. ANZ Grindlays is transferring its computer centre and other support departments to Bangalore and Madras because office space and housing in Bombay are too expensive.

Cities in the developed world have passed through similar painful transitions; London, New York and Paris all have problems with growing numbers of low-skill unemployed. But in Bombay these problems are so much more intense: people still go hungry.

Yet, Bombay would not be the city that it is if its residents dwelt long on its dark side. Eight months after the riots and six months after the bomb blasts, workmen are repairing the damaged buildings, the stock market is strong, businessmen have returned to making money.

Life is as chaotic as ever – but normal. The talk of the financial community this month has been plans by Reliance Industries, the textiles and chemicals group, to launch India's biggest-ever share issue, Rs21.72bn, for a new petroleum company.

The city fathers are planning to make their largest recent public investment with water control barriers to prevent the floods which strike during almost every monsoon. Even this huge project pales in comparison with the investment the city actually needs in its buildings, roads, railways and water pipes. But at least, a start is being made.

There will also be a hotel. And Bombay would not be Bombay if little boys did not one day gather outside it as they do outside the Taj.

Why telephone privatisation is being held up

Waiting for a call

INDIA'S most ambitious privatisation, initiated two years ago, is in the field of telecommunications. But court battles and the lack of a comprehensive policy have bogged down what could well be the world's largest expansion plan, connecting a population of more than 850m to the rest of the world.

Contracts for paging systems are yet to be finalised. The government's attempt last year to award contracts to Indian and multinational companies for a cellular network in four metropolitan areas has been mired in controversy, with allegations of favouritism and corruption.

After years of being neglected as a luxury, the Indian telecom industry is slowly coming into its own, as a crucial infrastructural element if reforms are to work.

Budget allocations were substantially raised, to Rs231.3bn in the government's current Eighth plan (1992-1997), as against Rs45.3bn in the Seventh plan. The actual expenditure, however, was Rs81.22bn, almost double the outlay, but only after India had received a rap on the knuckles from the World Bank.

Noting that the "the quality of the current service is very poor compared to international standards" and pitifully thin compared with other developing countries, the Bank estimated the potential market to be "three to four times the market currently being served," with only 5.8m lines for a population exceeding 850m (an average of 0.62 telephone lines per hundred Indians). The Bank added that the case for substantial reform was "overwhelming", and that much of the groundwork had already been prepared.

The government's Department of Telecommunications is long overdue for restructuring. The DoT is a monolithic, financially self-sufficient organisation which has a monopoly of the regulation, direct provision of services, and promotion of telecoms equipment manufacturing.

A committee set up in 1991 recommended as a first step the separation of these three functions so that independent regulatory and policy-making bodies could promote competition and private sector participation and concentrate on providing a flow of services to users rather than on the provision of physical infrastructure.

Besides the establishment of these two independent bodies, comprehensive reform would include entry of competitors in both long-distance and local services and the reorganisation of DoT into regional operating companies for the northern, eastern, western and southern zones, besides a long-distance trunk line corporation, to run the telecommunications service in the country.

But the government has been unable to decide whether this plan is feasible, or whether foreign equity participation should be allowed in these corporations. The government's expansion plan envisages adding 7.5m lines to the existing infrastructure by 1997, to reach 20m lines by the end of the century.

Experts say this will still not meet the demands of a growing population and an expanding economy. But the DoT admits that the telecom infrastructure in the country could improve drastically if private companies were allowed to provide the basic telephone infrastructure.

The DoT had sought Rs400bn from the government for its telecom budget, and it was decided that the sector should be partly privatised. The DoT invited global tenders for a range of telecom equipment and services, digital exchanges, and microwave systems and franchises for cellular and radio paging operations in more than 30 Indian cities.

"The telecom sector is a very sensitive one, so privatising it can only be on a selective basis"

But the Narasimha Rao government made it clear that privatising the entire telecom sector was out of the question. Officials point out that it was only in the late 1980s that governments in most developed countries relinquished control of the telecom industry.

"We have not got to the stage where absolute privatisation is feasible or advisable," says a senior official in the Communications Ministry. "The government's main concern is to develop a telecom infrastructure in the rural areas, where private companies would not venture because there are no profits to be had," he says.

Last year, the government set up rural exchanges in 30,000 Indian villages, a giant leap considering that only 42,000 villages had been connected in the 40 years since Independence.

"We are all for liberalisation, but the telecom sector is a very sensitive one, so privatising it can only be on a selective basis," says Mr Rajesh Pilot, a cabinet minister formerly in charge of telecommunications.

The government's limited attempts to privatise telecommunications have attracted the biggest names in the world industry, including the American AT&T and Motorola, Germany's Siemens AG, France's Alcatel, Sweden's Ericsson and Fujitsu of Japan.

But the dispute over the awarding of contracts for a mobile telephone network highlighted the government's inability to implement policy decisions, and, in this case, to devise a system which competitors could not allege was unfair, corrupt, or arbitrary.

DoT officials say lack of funds impedes progress in the sector, not the structure of their monolith organisation. Mr N Vittal, who heads the country's telecom commission, stresses that changes cannot be expected overnight. "There is a need for transitional management and this calls for a strategic alliance between the government and industry," he said recently. Foreign companies had often complained that India was doing "too little, too slowly" in the telecom sector.

An executive of a large foreign company which will supply the government with part of a Rs1.5bn switching equipment order said the the size of the market was tempting, "but we are tired of hanging around Delhi's bureaucracy, waiting for them to make up their minds".

The stringent technical validation tests stipulated by the government took Siemens, Ericsson and Fujitsu several frustrating months to clear.

"What made things worse was that the government refused to specify which of the 40-odd tests we had failed to pass, so we could adjust accordingly," says the manager of one company left out of the eventual award. But he was optimistic that, with the government's expansion plan under way, there would be further tenders floated for switching equipment.

Voicing a common complaint of foreign investors, a telecom executive says: "There is a stubborn reluctance among bureaucrats to get projects off the ground, even after the red tape has been surmounted, and clearances obtained."

Last year, Motorola threatened to move its $100m semiconductor plant project and a telephonic pager company to China. "But they are still here," points out an official in the Telecom ministry. "It's the size of the market and the growth potential we offer that makes it worthwhile for investors, even if sometimes they have to wait."

Shiraz Sidhva

■ Profile: GOKALDAS EXPORTS

The appeal of apparel

SMALL companies contribute substantially to Indian exports of products ranging from garments to leather, semi-precious stones and jewellery.

In spite of restrictions and overseas competition, energetic private enterprises have managed to find rack space in chainstores across Europe and ths US. Macy's, Sears, C&A, Kaufhof and Banana Republic all have "Made in India" tags on their labels.

According to the Apparel Export Promotion Council, India exported Rs85bn worth of garments in March 1993. It predicted the total would reach Rs100bn in 1995. Exports grew by an average 30 per cent a year, making garments the country's highest net foreign exchange earner.

"Versatility, flexibility and value for money are the three measures on which Indian garments score high marks," says Dinesh Hinduja, a partner at Gokaldas Exports, the country's top garment exporter.

This family-run concern, which employs 13,000 people in its 26 factories in and around ths southern city of Bangalore, totted up international sales of Rs1.3bn in the year to March 1993. (The family is not related to the owners of ths Hinduja international trading group.)

Some 80 per cent of this was picked up by European manufacturers, wholesalers and retailers such as Klans Steilmann and Camel in Germany, Newman and Galeries Lafayette in France and the C&A retail chain in the UK.

Gokaldas Exports also supplies shirts to American jean makers Wrangler and Levi Strauss. Eight out of its 28 factories are exclusive production centres for these clients. Levi Strauss has put Gokaldas on top of the shortlist of possible partners for its proposed manufacturing venture in India.

The Hinduja family made its debut in international trade in the 1960s by exporting silk scarves. When demand levelled out, it began to look for other options and hit upon exporting cotton shirts.

Gokaldas' export sales	
Year	Rs million
1988-89	280
1989-90	310
1990-91	700
1991-92	1,000
1992-93	1,300

Source: company data

A family split in 1979 divided the business. Six factories fell to the lot of Jhamandas Hinduja and his three sons, Madanlal, Rajendra and Dinesh. Since then, both branches of the Hinduja family have expanded their businesses and now compete with each other in global and domestic markets.

The siblings divided operational responsibilities between them. Madanlal, the weaving expert, buys the fabrics, Rajendra monitors administration and shipments and Dinesh, ths youngest, watches over manufacturing and marketing. Gokaldas specialises in outerwear, a quota-free item for which it first secured orders in 1981. Today almost a third of the monthly production of 500,000 garments is outerwear – jackets, coats and rainwear.

The fabrics used by the company have to be bought from Hong Kong or Taiwan. The 30 per cent import component pushes up costs. "We end up being more expensive than our counterparts in China, Pakistan and Bangladesh," says Dinesh.

But in favour of Indian manufacturers is their willingness to take on smaller orders and their dexterity in handling more complicated styles.

Procuring linen, viscose and cotton of reliable quality is a persistent problem for Indian garment makers who depend on outdated mills and the unorganised handloom sector for supplies. The odds they face – from collecting yardage from dispersed weaving centres to coping with perennial power cuts – call for tremendous co-ordination to ensure shipments are on time. The Hindujas say that there is only one way to learn: by burning your fingers.

Over the years the company has learnt a great deal about quality. Apart from in-house checks, big shipments are certified by technicians from the buying company before being dispatched. It has also invested in importing the latest machines for sewing, buttonholing, fusing and embroidery. German designers help Gokaldas put together its own collection four times a year.

Sales growth is now showing signs of a slowdown. This is dus largely, says Dinesh, to recession in western markets. "Peopls don't change their wardrobe as often as they used to," he says. The Hindujas havs identified Russia and Sonth America as potential new markets. Both countries have no quota restrictions.

The Hindujas are best known in the country for the 37-store Wearhouse garment chain found in big cities. Their cousins run the rival Weekender stores.

Buyers' preferences worldwide are veering towards environmentally friendly garments. The intrepid export house is currently putting together a trial consignment for its newest client, Marks & Spencer.

Naazneen Karmali

■ Profile: RPG ENTERPRISES

How a giant keeps growing

TWO big business houses grew at a phenomenal rate during the period of government controls.

Reliance and RPG Enterprises both bad close links with tbe ruling party. Bnt they developed differently. Reliance set np new industries, but has had difficnlties with its only takeover – of the engineering and cement giant Larsen & Toubro.

RPG Enterprises, however, grew largely by acquisitions. Its leading subsidiaries – Ceat, Calcutta Electric, Harrisons Malayalam, Searle, KEC International and International Computers – were all acquired through takeovers.

RPG Enterprises, headed by 63 year-old Mr Rama Prasad Goenka, raised its turnover to Rs31bn in the year to March 1993 from Rs800m in 1979-80.

Mr Sanjiv Goenka, the vice chairman, admits that not all RPG's takeovers were wise. "But in the highly regulated regime, we wanted to grab all the opportunities that came our way. Otherwise, we could not have grown at this rate."

Remington Rand, which makes typewriters and telephonea, and Gramophone Company have proved disappointing acquisitions. With their low turnover and mounting losses, they have not been an asset to India's fifth largest business house.

It is now trying to sell Remington, but says it will retain Gramophone Company for "emotional reasons" and because of its "very rich repertoire of music built for nearly a century".

"Except for certain aberrations, our takeover of companies has followed a pattern", says Mr Sanjiv Goenka. "The corporate strategy has been to strengthen our presence in antomotive tyre, thermal power, chemicals and infotech through acquisition and also by setting up of new units."

Calcutta Electric supplies electricity in the Calcutta region. The group also owns KEC International, the world's second largest builder of electricity pylons, and Asian Cables which makes high tension power lines. It also has a power consultancy.

RPG Enterprises has similarly integrated its business connected with tyres, of which it is a leading manufacturer. It produces all the major tyre components, including rubber, nylon cord and carbon black.

In the new deregulated business climate, says Mr Goenka, RPG Enterprises "will seek growth where it already has a critical mass. Similarly, it will strike out in new fields if only there are prospects for creating a critical mass."

That is why it decided to sell its holding in India Polyfibres, a small player in polyester staple fibres, and also two small electronic units in Kashmir. The group, which thinks its turnover could reach Rs100bn by the turn of the century, is giving "maximum attention" to the development of new coal fired power stations.

Calcutta Electric is to build a 500MW plant at Budge Budge and a 1,500MW complex at Balagarh at a total cost of Rs60bn. Its interest in power is not going to be confined to West Bengal. It has bid for the Delhi Electric Supply Undertaking, a government unit which is to be privatised.

"We are also going to set up a 250MW power station at Chandel in Bihar. We have proved ourselves to be an efficient producer of power and we are not afraid of foreign competition," says Mr Goenka.

The group also claims to be internationally competitive in tyres. "Ceat, which is among the top 20 tyre companies in the world, is a large exporter of tyres to the US and Europe. This would not be possible unless our prices and quality are right," says Mr Goenka.

RPG would have been even stronger had it not lost control of Dunlop India, in October 1988, to Mr Mann Chhabria, a non-resident Indian industrialist with whom it had managed the company jointly for four years.

Bnt RPG is not sorry that its petrochemical projects in West and Tamil Nadn did not take off. With import restrictions lifted, their viability was doubtful.

For the same reason, the group pulled out of a nuclear medicine project. "We cannot look up to the government for protection. Before we make any investment, we must be sure that we can withstand foreign competition. After all, the government will further reduce the import duty," RPG says.

As part of a rationalisation policy, it has started looking abroad. It has recently commissioned a tyre plant in Sri Lanka where it also manages two plantation companies. The group has been invited to manage rubber estates in Vietnam and is to set up a task force to take advantage of business opportunities in China. Bnt RPG Enterprises will restrict itself to areas where it has the expertise.

Kunal Bose

There is more to Bangalore than electronics, writes **Sara Webb**

Silk worms and silicon

THE south Indian city of Bangalore has estahlished itself as the country's electronics capital, earning the nickname "Silicon Plateau" from members of its business community.

But Bangalore's success in sttracting new business ventures, particularly in the software field, is taking its toll on the city's infrastructure. Unless the state government's plans to improve the city's infrastructure see the light of day, further development in the region could be curtailed.

Bangalore, capital of the south indian state of Karnataka, owes its success in the electronics field to a combination of political, industrial and geographical factors.

Back in the 1950s, the Indian government decided to hase several of the big public sector industries in Bangalore, creating new jobs and establishing Bangalore as an important industrial centre. Those public sector companies included Bharat Earth Movers, Bharat Electronics, Hindustan Aeronautics, Hindustan Mschine Tools and Indian Telephones Industries – names which still play an important role in the state and the country as a whole, employing thousands of people.

They also provided a strong magnet for ancillary companies, drawing in small-scale industries which could work as sub-contractora to the hig industries.

Initially, Bangalore was able to provide a cheap and plentiful supply of power. However, the situation has changed and, as in many parts of India, demand far outstrips supply today. While heavy industries now suffer from a shortage of power, businesses which are less power-intensive, for example in the software and related husinesses, have continued to flourish.

Silk worms feeding on mulberry leaves at a Bangalore farm *Ashley Ashwood*

For such businesses, Bangalore claims to have a number of advantages. For a start, its climate is a lure for many indians: with an altitude of just over 900 metres and relatively light rainfall, Bangalore is affectionately described by its inhabitants as having "an air-conditioned climate". It is green with parks and leafy boulevards – unlike other hig industrial or husiness centres, such as Bombay.

"Young, upwardly mohile, educated people want to come here and if you are hidding for talented staff, that is an important consideration," points out Mr Anal Jain, vice president of marketing at Tata Information Systems Limited (TISL), the joint venture husiness between IBM and india's Tata group.

There is also a large pool of talent which foreign companies in the electronics and computer sector are keen to tap. The indian Institute of Science is based in Bangalore and the state of Karnataka as a whole has 18,000 college places for engineering.

Mr Richard Gall, managing director of Texas Instruments (India), says: "Bangalore is known as a technology centre: in the mid 1980s, US companies in information technology saw that demand for software engineering talent was far outstripping the supply in the US, so it was natural that when TI started to address this problem we looked at the technical heart of India."

Such talent comes at knockdown prices for many foreign companies. Mr Jain st TISL points out that companies can hire graduate engineers from a good schcol for about $2,000 a year, or mayhe $3,000 if the engineer has an MBA. Such staff would he employed in software, marketing or on the support side. "Wage rates are going up quite rapidiy here, but thet is still a lot cheaper than in the US," says Mr Jain.

Foreign investors say they are attracted by the state's relatively good record in terms of labour relations, as well as the Karnataka government's very positive attitude towards investors, particularly in the light industry sector.

"The government is very pro-foreign investment – Bangalore today is a Who's Who of US husiness," says Mr John Hamilton, managing director of Cargill Seeds India, the Bangalore-based india operations of Cargill, the US seed company. Cargill may have been welcomed hy the state government, but it had a less rapturous response from certain factions of the farming community: some farmers have attacked Cargill property, protesting that the US group will deprive farmers of their livelihood if it patents the seeds it develops.

However, the protests do not appear to be deterring other investors. "We're always open to industrial investment, but we encourage them to go 30km outside Bangalore to reduce the strain on our resources," says Mr J.C. Lynn, the state's chlef secretary who wss brought in last December by Mr M. Veerappa Moily, the chief minister of Karnataka, as part of a shake-np of the administration. Mr Moily represents the Congress (I) party, and replaced Mr S. Bangarappa as chief minister when the latter was ousted because of his corrupt practices.

Karnataka has made considerable efforts to diversify its agricultural and industrial base. Sugar-cane and rice paddy are grown where irrigation allows, and the state is rich in teak, rosewood and sandalwood. Eucalyptus has been developed as a fast-growing source of pulp for the forestry sector, while sericulture and dairy processing have heen introduced to provide more stahle sources of income for farmers in the region. Today, sericulture employs about 200,000 people in Karnataka and the state accounts for nearly half of India's silk production.

In industry, however, the rapid growth and development have brought new problems to the region – in particular, shortages of power, water and transportation.

In tune with the Indian government's economic liberalisation programme, the Karnataka state government is lcoking at ways in which the private sector can play a role in developing the state's infrastructure given that Bangalore's current population of ahout 4.5m is expected to increase to between 6.5 and 7m by the year 2000. There are tentative plans to alleviate Bangalore'a traffic problems by setting up a mass rapid transportation syatem, while meeting the city's demand for power by building new power plants.

"Power supply is a hig problem, so our policy has been to encourage small electronics Industries rather than heavy industry," says Mr Lynn. Karnataka's power supply is predomInantly hydro-electric. Over the next five years, Mr Lynn hopes that the state will add a further 3,000-4,000MW to its existing capacity of 2,700MW with the help of new coal and hydro-electric power projects – improvements which would encourage the growth of the heavy industrial sector and undoubtedly benefit many of the region's inhabitants.

Lack of water is the Achilles Heel of Madras's heavy industry

A trickle-down economy

THE ENTREPRENEURS of Tamil Nadn know how to take advantage of a crisis, writes SARA WEBB.

While the city of Madras suffers one of its worst water shortages in years, private truck owners clog the roads into Madras, bringing in tanks of water which they then sell on the street. Scuffles hreak out as people rush to buy water, while in some parts of town, the poorer inhahltants stay awake at night waiting for the tell-tale trickle from the tap which signals that the water snpply has been switched on for an hour or so.

The more affluent keep their own water tanks while some of the state's big industrial concerns have been forced to develop water recycling systems to avoid running dry.

Madras, the capital of the south Indian state of Tamil Nadu, suffers from an acute water shortage. The prohlem tops the list of priorities for Mr T.V. Venkataraman, the state'a chief secretary, especially since Tamil Nadu is keen to encourage further investment in the state's industrial development, which centres predominantly around light engineering, textiles and leather.

"The liberalisation of economic policy in the last year has been quite helpful – there has been a lot of interest in setting up new industries, both from affluent people in India and from abroad," claims Mr Venkataraman. However, industrialists argue that until something is done to rectify the state's poor infrastructure, particularly water snpply, it will be difficult to encourage substantial new investments.

"The water situation is thoroughly mismanaged, there's absolutely no hope of any water-intensive industries such as chemicals or paper wanting to come here," complains one industrialist.

Mr D. Srinivasan, southern regional director of the Confederation of Indian Industry, points out: "Water is a major constraint In the industrial development of the state, and there is an urgent need to concentrate on new technologies and innovative schemes like desalination and water recycling, and to adopt water-saving concepts such as waste water treatment, recycling and conservation wherever possible."

Tamil Nadu's chief minister is featured on billboards all over Madras *Karen Willis*

Poor monsoons in the last two years have exacerbated Tamil Nadu's water problems. In addition, the state has had a long-running dispute with neighbouring Karnataka over the right to use water from the river Cauvery, an issue which is heavily politicised.

However, Mr Venkataraman says the state hopes to improve the water situation in Madras through a resolution of the Cauvery dispute, as well as hy obtaining water from the Krishna river, nearhy lakes and from desalination projects. Desalination of hrackish water or sea water was once seen as too expensive an option to pursue: now the state hopes to encourage foreign investors to come in on a "build-operate-transfer" basis.

Power is the other main area which needs to be developed. Tamil Nadu, in common with other Indian states, needs to boost its power capacity as it already suffers a shortfall of 1,500MW and this is expected to increase.

The indian government announced in 1991 thet private sector Investors would be encouraged to participate in new power projects given that the public sector cannot afford to meet energy requirements.

Some headway has already been made in this respect in Tamil Nadu. The atate has large lignite deposits and has signed an agreement to set up the 1,500MW Jayamkondan lignite project. The project, which is the largest in Asia, is an integrated mining and power generation project which is a joint venture between Siemens of Germany, the Khaita-Birla companies of McNally Bharat, and Williamson & Magor, and the state government-owned Tamil Nadu Industrial Development Corporation.

Ms J. Jayalalitha, the state's autocratic chief minister whose career as a Tamil film actress preceded her move into politics, has pinpointed the need to develop the state's industrial sectors. Tamil Nadu's industrial growth has lagged the national average in recent years, and unemployment, particularly among young qualified people, is high.

However, critics claim that since leading her party – the All India Anna Dravida Munnetra Kazhagam (AIADMK) – to power in 1991, Ms Jayalalithe has achieved little in terms of promoting Tamil Nadu's industry. "There's a lot of talk but not much action – she's just another publicity-seeking politician," complains one husinessman of Ms Jayalalitha, a woman whose chubby features adorn many of the city hill-boards.

Yet according to the Confederation of Indian Industry, Tamil Nadu is the third most industrially developed state in India, after Maharashtra and Gujarat. That ranking is largely thanks to the automotive and auto-components industries which have developed over many years in Tamil Nadu.

Ashok Leyland, the bus and truck manufacturer, has s substantial part of its manufacturing in Tamil Nadu in the area around Madras and Hosur (an industrial centre close to the border with Karnataka).

Hinduja (the international trading group) and Iveco (a subsidiary of Fiat of Italy) together hold a cootrolling stake in Ashok Leyland, with Iveco cootributing industrial expertise to help improve the quality of truck production. A new range of trucks is being developed for production next year.

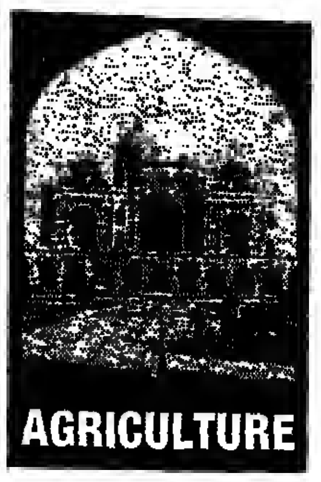
"Gradually we will be replacing our range of trucks with these new designs made available by Iveco. The new range will have engines and transmission which are the same as those used by Iveco in Europe and which meet EC standards," says Mr R.J. Shahaney, managing director of Ashok Leyland.

He is optimistic that Iveco will use India as a base for exporting the new range of trucks, for example to the Far East, Australia, and Middle East, particularly in view of India's low labour costs and overheads.

The presence of Ashok Leyland in Tamil Nadu has encouraged a flourishing auto components industry in the region. Now, the industry is keen to exploit the advantage of liberalisation and a favourahle exchange rate to export more components.

Mr S. Viji, president of the Automotive Component Manufacturers Association of India, and managing director of Brakes India, a Madras-based manufacturer of brake systems, says the components sector is concentrating on boosting exports to the US, EC, Australia, New Zealand and south-east Asia.

Brakes India exports 11-12 per cent at present, but hopes to boost its exports to 20-25 per cent of sales In five years. However, some components manufacturers are already exporting as much as 60 per cent of their production, Mr Viji says.



■ RURAL REFORM

Surface is scratched

India's latest economic reform programme has barely scratched the surface of the country'a agricultural sector.

While tha government earlier this year announced a far-reaching liberalisation of agricultural exports, it has done very little to modernise the vast domestic markets and has, by and large, fought shy of liberalising a sector of the economy which is riddled with controls and regulations.

Consequently, the economic reform programme has bypassed a significant proportion of the population. About 80 per cent of Indians live in rural areas, and 67 per cent of the people work in agriculture. About a third of domestic production comes from agriculture.

Reform-minded economists believe that there is an urgent need for change in the agricultural sector to improve productivity, largely by eliminating restrictive regulations so that farmers can realise the full potential of their land and efforts. But they are opposed by powerful vested interests including wealthy farmers who manipulate the current regime and the many officials who administer the panoply of agricultural regulations.

With its history of terrible famines, post-independence India has placed enormous importance on the need for self-sufficiency in foodgrains, and has chosen in the past to restrain food exports in order to keep down food prices and build up food reserves.

The Green Revolution of the 1960s and 1970s helped India to achieve its goal of self-sufficiency. The use of fertilisers, pesticides, high-yielding crops, farm mechanisation and better irrigation methods led to an increase in farming output.

The index of agricultural production, quoted by the Centre for Monitoring the Indian Economy (CMIE) in its Economic Intelligence Service, has risen almost three-fold aince 1949-50. Agricultural production accelerated during the 1980s, and total foodgrains production rose from 129.6m tonnes in 1980-81 to 176.4m tonnes in 1990-91, according to government figures.

The increase in production during the 1980s stems largely from a significant rise in yields: for foodgrains, the yield rose from 1,023 kgs/hectare in 1980-81 to 1,380 kgs/hectare in 1990-91, according to government statistics.

Today, market-oriented economists question the self-sufficiency policy, arguing that it makes more sense for India to liberalise imports and purchase those food items that are available at a lower real cost on the world market instead of attempting to meet all of its requirements domestically.

The central government sets tha procurement price (which is the floor price) for wbeat and rice, as well as having a wide range of controls on various other agricultural products. It uses a combination of subsidies and price controls both to support producers and to benefit consumers.

Farmers benefit from subsidies for fertilisers, equipment sucb as tractors, and irrigation. Furthermore, in many parts of India farmers pay next to nothing for their electricity. This is used for pump irrigation, allowing some parts of the country to have two harvests a year – one in the monsoon season, and one in the dry season.

The system of subsidies – in particular those for fertilisers – acts as a significant drain on government resources at a time when India needs to cut back on expenditure.

Fartilisar subsidies have grown to become the largest central government budgetary subsidy, amounting to about 1 per cent of GDP in 1990-91. The government can ill afford to continue supporting the farmers in this manner.

At the same time, some of the agricultural methods which were encouraged in the past due to subsidies, may not be sustainable: some parts of India suffer from over-irrigation and damage to the soil. This is taking place at a time when India's population is growing, and the burden on the farmers is increasing.

The radical solution for the government would be to get rid of the costly subsidies and open up the sector to market forces, with the option of reallocating some of the savings to investment in the agriculture sector, for example to stimulate agro-induatries. However, such a move would be socially disruptive and almost impossible politically. Instead, the government has embarked on a more gradual process of reducing subsidies.

The government made a tentative effort to reduce the fertiliser subsidy, with the result that prices for certain fertilisers bave risen by around 50 per cent since last year. It is also restructuring the power sector, which should lead to fewer distortions in the price of electricity.

Givan that India is coming close to the limits of extensive cultivation, it will have to employ other means of increasing productivity, for example by diversifying into higher added value crops and agro-industries, and by adopting more efficient irrigation methods.

Mr Balram Jakhar, the agriculture minister, recognises the need to encourage diversification in the agricultural sector and the development of agro-industries.

The government points out in its draft agriculture policy resolution that "value addition in agriculture can only be achieved by a concerted thrust being made in increasing processing, marketing and storage facilities. These are imperative for the development of agro-processing industries which are the key areas for development in agriculture."

With the establishment of processing units in the rural areas, farmers would be able to increase the value of their agricultural produce and could see additional benefits such as the creation of new jobs.

The problem for the processing industries – for example, makers of tomato paste or fruit canners – would be how best to ensure standard and reliable supplies in sufficient quantities. In many parts of the country, individual farmers work on relatively small plots of land, and, as a result of various land reforms, there are ceilings on the amount of land whicb can be held by individuals.

These reforms were intended to prevent the accumulation of large landholdings by individuals, although in some parts of India, for example the northern state of Bihar, land ceilings are largely ignored by the powerful landlords.

Mr Balram Jakhar is keen to promote closer co-operation between individual farmers living in the same area so that they can work more economically on the land, for example by clubbing together to operate more advanced irrigation systems. "I want to encourage joint enterprise between small groups of farmers," he said.

While India's agricultural production has increased threefold in the last four decades – which is a considerable achievement – there is still more that can be done to help encourage the growth of the agricultural sector and improve the living standards of India's large and in many areas impoverished farming population.

Sara Webb

Value of main agriculture exports (Rsbn)

PRODUCT	1991	1992/93
Rice	7.55	9.72
Oil meals	8.71	15.39
Marine products	13.74	17.43
Fruit, vegetables, processed foods	4.51	4.99
Meat and products	2.44	2.57
Others	25.01	22.98
TOTAL	60.68	73.08

Source: Ministry of Agriculture

Exports get the all-clear

U-turn on curbs after 40 years

SARA WEBB looks at the most important step yet taken to liberalise the agricultural sector

THE government's decision to encourage Indian farmers to export mainstream agricultural products in April this year reverses India's post-independence policy of restraining food exports and is the most significant step taken so far to liberalise the highly-regulated agricultural sector.

Mr Pranab Mukherjee, the commerce minister, has said it was necessary to promote agriculture exports to boost investment in agriculture, raise incomes in the rural parts of India, and thereby ensure that all parts of the country felt the benefit of export-led growth.

In the past, India's agricultural exports have been predominantly the internationally traded commodity crops such as tea, coffee, high-grade rice, nuts and spices, while the export of staple crops has been either restricted or prohibited.

However, the government now hopes that by scrapping duties on the import of machinery and raw materials used in export-oriented farms or food-processing plants, it will encourage people to set up export-oriented units in agriculture, horticulture, animal husbandry and fish-farming.

Export-oriented projects will be obliged to export only half of their output, and are free to sell the remainder domestically.

The export of agricultural products reached an all-time high in the year to March 1993 of Rs73.08bn (about $2.5bn), up from Rs60.68bn in the previous year and representing 13.7 per cent of India's total exports in value. These export figures include rice, marine products, fruit, vegetables and meat, but exclude tea, coffee and other traditional plantation crops.

By encouraging farmers and businessmen to set up export-oriented schemes, the government hopes to increase agricultural exports to $5.6bn in 1996-97. "Our export policy should be permanent, not stop-and-start: we must be pragmatic and consistent in our ideas for reliable export promotion," said Mr Balram Jakhar, India's agriculture minister.

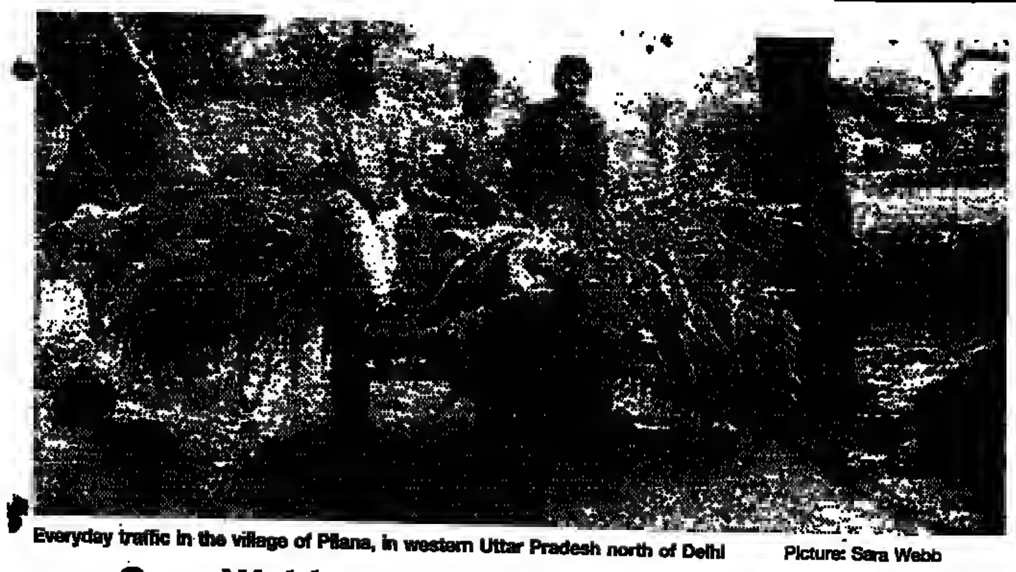
There is clearly plenty of potential for developing export-oriented agriculture especially in the more fertile parts of the country, such as the Punjab, where there are two harvests a year. India produces 70m tonnes of vegetables and fruit, but only about 1 per cent of it is processed, and an estimated 25-30 per cent is wasted through poor harvesting and the lack of adequate storage and transport facilities.

The agriculture ministry is keen to encourage investment – possibly through joint ventures – in cold storage, processing and packaging plants in the rural areas as this would help to reduce the scale of wastage in agriculture and raise the volume of products available for export.

Farmers will face greater pressure to grow export-quality produce, while efforts to market it, both abroad and in other parts of India now that restrictions on inter-state movement of commodities have been removed, will have to be stepped up.

The challenges are not insurmountable, though the development of agricultural exports may take some time, given the need for investment in infrastructure and storage facilities.


Bullocks being used for irrigation near Bangalore



Everyday traffic in the village of Pilana, in western Uttar Pradesh north of Delhi Picture: Sara Webb

Sara Webb explores a village called Pilana

Old ways die hard in the countryside

Village youngsters at Pilana's water tap Picture: Sara Webb

THE DOWRY which Mr Ram Pal Tyagi had to provide for his daughter's wedding earlier this year consisted of a moped, a fridge, a television, a double bed, a sofa set, an iron safe, clothing, household utensils, cash, gold and ornaments.

Yet Mr Tyagi, who farma sugar cane and wheat in a village 50 km north of New Delhi, describes himself as "a man of only average means".

Dowry is illegal in India, but it remains a fact of life in many parts of the country, particularly in the rural areas. Furthermore, the shopping list of demands from prospective husbands these days is more likely to include expensive consumer and electrical items in preference to the traditional gifts of bedding and clothing.

The villagers of Pilana, where Mr Tyagi lives, are sufficiently close to Delhi and well enough tuned in to the media to be influenced by consumer trends. Nor is this 8,000-strong village to Western Uttar Pradesh unusual in this respect. A survey by the Indian Market Research Bureau of more than 800 Indian villages showed that 77 per cent of them receive television transmissions – an important influence on consumer trends – while 40 per cent of families own a bicycle and 35 per cent have a radio or TV. At least 60 per cent of the villages have shops which sell soap, detergent and batteries. Today, toothpaste from the village shop is replacing the traditional Indian tooth-cleaner – a twig from the neem tree.

Pilana has all of these. Its roads and houses are bricked. Electricity runs for as much as eight hours a day and there are telephone connections. More than 100 of the 800 families in the village have a television, and more than 50 families own a tractor. There are water pumps and tap connections to many of the houses. The children go to school in the village, and over half the inhabitants are literate oow. In the last five years, Pilana has gained a veterinary clinic and a health centre.

"We are more prosperous than before, thanks to better irrigation, better cultivation, and better employment and transportation in the village as well as outside," says one elderly Brahmin. The changes have not only been material: increased contact with the outside world has led villagers to question some aspects of traditional village life.

Many of the villagers are only too aware of the ridiculous burden placed on them by the dowry system in a modern age. "People realise it is not a good thing because the amount of the dowry is getting out of proportion and it is difficult to meet the requirement," says Mrs Sukarma Tyagi, a grandmother with three daughters and two sons.

The average family pays between Rs300,000-Rs400,000 (about £6,250 - £8,300) in dowry, well in excess of their annual income. The upper caste families in Pilana have land holdings of about 10 acres, earning roughly Rs6,000 per acre.

Still, even though Mrs Sukarma Tyagi says there is "a lot of talk" that the practice of dowry should ba stopped, change is unlikely to be rapid. Take the example of representation on the village council. These councils, which are responsible for village development, were usually dominated by men from the higher castes. In the last couple of years, the councils have had to include women and untouchables – the so-called scheduled castes such as the sweepers and leather-workers.

In the village of Pilana, there are five women and four scheduled castes on the council of 20. "Of course there is representation of women on the council but they are not active participants because they are not educated," says the village head, leaning back on his charpoy to take a drag from a splendid long-necked water pipe.

Mrs Manisha Tyagi, one of the female representatives on the council for the last two years, says she has never attended a meeting because she is too shy and frightened of offending tha other members. She comes from a neighbouring village and, like all women who marry into Pilana society, she must keep her face veiled in public. "I don't like having to cover my face in front of the men at the meetings. Also, everyone in the village is related and I'm scared I might say something that offends my relatives or makes life difficult for my family".

The scheduled castes also have their council representatives, but they complain that they do not have much influence because upper caste brahmins have a majority on the council and so can overrule the untouchables.

Yet despite these gripes, many village members admit that relations among the various castes are relatively harmonious, although the caste distinctions are clearly upheld, with different castes having their own residential areas.

"There's definitely more mixing between the castes," claims Mr Srinikias Dixit, a elderly Brahmin in the village. However, there are limits to the degree of mixing. Untouchables were not allowed to use the village well, although their situation improved when hand pumps were installed in their own area. And even now the untouchables are not allowed to worship in the same temple as tha upper castes, with the result that they are collecting money in order to build their own temple.

Marriage between members of different castes is unthinkable to the villagers. Indian newspapers titillate their readers with a diet of horror stories about unfortunate couples who disobey the strict caste rules. The penalty is often death: in one recent case, the husband and wife were beheaded by their relatives.

One of the shoe-makers in Pilana, who belongs to a scheduled caste, says that "95 per cent of the things associated with untouchability have gone. Now we put more emphasis on cleanliness and hygiene, and education has contributed to this. Upper caste people find us more acceptable than 20 years ago." And although he feels that he would probably never be able to earn his living except as a shoe-maker because of his caste, "at least I hope my children might be able to do something else for a living, thanks to education."

A turbanned Robin Hood rallies the peasants of Karnataka

Seeds of conflict

DECKED out in green, from his fur hat to his shirt and traditional farmer's scarf, Mr M.D. Nanjundaswamy could be mistaken for a latter-day Robin Hood, writes SARA WEBB.

That is not the only similarity. As leader of the Farmers' Association in Karnataka, a south Indian state, he sees himself as the protector of poor Indian farmers against rich foreign multinationals.

Mr Nanjundaswamy and his farmer-followers are worried that the Dunkel Draft for the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) will allow multinational companies to develop plant genetic material from countries such as India, then patent the resulting plant seeds and sell them back to farmers in the Third World at a much higher price.

Supporters of Mr Nanjundaswamy's Farmers' Association (known as the KRRS) raided the offices of Cargill, the US seed company, in Bangalore last December in protest at the company's operations in India, and attacked Cargill's seed cleaning and packaging plant in Bellary, Karnataka, in July.

"Most of the farmers here are not aware of the Dunkel Draft and GATT," says the village chief of Budigere, a village north of Bangalore. But, he adds, they are worried that a company such as Cargill could come into the market and dominate seed sales.

Indian farmers usually set aside a small portion of their crop at the end of the harvest for sowing the next season. An estimated 85 per cent of seed production in the country is by farmers themselves, although there are large government-owned and private sector seed companies.

Mr Nanjundaswamy, who represents the KRRS in the Karnataka state legislative assembly, has said his farmers will continue to target multinationals who want to plunder the Third World for genetic material which is then turned to commercial advantage for the companies concerned, rather than for the financial gain of the countries where they evolved. "What the multinationals are doing is international piracy, and, in view of the mischief they do, we are justified in taking this actinn," claims the bespectacled Mr Nanjundaswamy, who now divides his time between looking after the family farm in Mysore and political campaigning.

A lawyer by training, he claims that his political beliefs are founded on "Gandhian socialism" and advocates indigenous production, self-reliance and independence in agriculture.

But the bouts of violence which his followers pursue appear to be losing him some of his popular appeal. "We do not condone that kind of violence," said the village head at Budigere. Indeed, plenty of farmers are flocking to buy Cargill's seeds because of their high yields and, in the case of sunflower, the higher oil content.

Farmers fear that, under the new Gatt Round, multinationals will redevelop Indian seeds and resell them in the Third World for a much higher price

"Tha basic question is 'who has the intellectual property rights to these seeds?' Our stand is that there are common intellectual property rights," says Mr Nanjundaswamy.

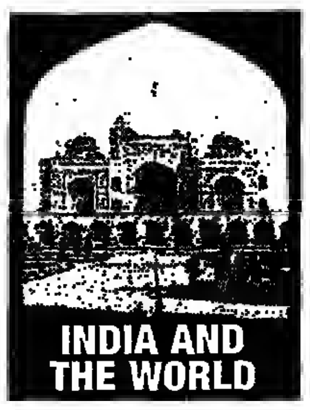
Cargill denies any intention of patenting seeds in India and says the KRRS is misinforming farmers about the consequences of GATT and the whole issue of intellectual property rights.

Mr John Hamilton, managing director of Cargill Seeds India (which is a joint venture with Tedco, an Indian commodities broker), says patenting makes no sense because of the speed with which crop yields can be raised.

"It only takes seed companies two to three years to develop better, higher-yielding varieties which overtake the old varieties to the field. And anyway, it would be impossible to police; patents would not be enforceable," he says.

However, he emphasises that Cargill is "looking for some workable form of intellectual property rights – not to prevent a farmer from retaining seed but to prevent the plunder of our genetic developments by other seed companies". In other words, if the farmer wanted to keep some of the harvest back for planting, or if he wanted to exchange seed with his neighbour, that would not be a violation of the intellectual property rights.

Since July 1992, Cargill has launched two hybrids of sunflower and three hybrids of maize in the Indian market, following four years of research into various hybrid combinations to see which would be suitable for Indian farming conditions. Neither crop is indigenous to India, and Cargill claims that the tougher competition between the seed companies has served farmers well, bringing down seed prices by 50 per cent in five years.



Foreign policy is dominated by ties with Pakistan, says **Stefan Wagstyl**

Cricket is no longer enough

The fighting which broke out at an India-Pakistan charity cricket match in London last month was a pubtic demonstration of the intense bitterness between the two countries.

Even a passionate appeal for calm from Imran Khan, the former Pakistan captain and a legeodary figure in his own country, was unahle to prevent Pakistan supporters from invading the pitch and then burning an Indian flag.

India's relations with other countries ehh and flow, hut the enmity with Pakistan is deepty emhedded in both peoples. Indian foreign ministry officials have other issues on their plates such as improving links with the US and China and nurturing ties with the states of the former Soviet Union; regional co-operetion; the United Nations; nuclear weapons; championing Third World causes.

All these matters are on Delhi's foreign policy agenda. But hostile relations with Pakistan colour tham all.

Unfortunately, little has happened in the last year to ease the tension – and much has happened to make it worse. The outbreak of inter-religious violence which followed the sacking of the Ayodhya mosque in northern India triggered a spate of angry exchanges between Delhi and Islamabad, which culminated in tit-for-tat expulsions of junior-level diplomats.

The bomb blasts which shook Bombay in March raised tensions further as India accused Pakistan's security forces of involvement in the outrage. In the meantime, violence worsened in the troubled northern Indian state of Kashmir, where pro-independence insurgents operating with support from Pakistan are fighting the Indian security forces.

Indian officials believe that the domestic political upheavals in Pakistan delay the possihility of any meaningful hilateral talks. As Mr Salman Kurshid, the minister of state for external affairs, said in a recent FT interview: "They have tried to hide hehind a hreak in government and given the impression of heing preoccupied internally."

But even if e strong government were to take power in Islamahad tomorrow it is unlikely that the two sides could settle their differences over the crucial issue of Kashmir. India insists Kashmir is an integral part of the country; Pakistan says Kashmir, inhabited mainly hy Moslems, should have the right to choose between staying in India and joining the Islamic etate of Pakistan.

In recent weeks, the Kashmir tide seems to have turned in favour of the Indian authorities

Both governments reject the option favoured hy many Kashmiris – independence. The one matter they both agree upon is the hilateral Simla Agreement, signed in a rare lull in tensions in 1972, which says that the issue of Kashmir should he resolved hy the two governments.

India is ready to try to mollify Kashmiris hy offering greater local autonomy, but not independence. However, it insists that the violence must stop and Pakistan must cease supporting the insurgents.

The last year has seen a strong upsurge in tha insurgents' activities, which has provoked an equally tough response from the Indian security forces. In recent weeks, the tide seems to have turned firmly in favour of the Indian authorities which are claiming some success in suppressing violence. A lull in the fighting may give Delhi an opportunity for a meaningful offer of talks with the insurgents. Mr Kurshid eays the government is ready for talks "any time, anywhere".

In the meantime, the security forces' activities have exposed India to international criticism of its human rights record. Amnesty International and other watchdogs have accused the security forces of acts of brutality against Kashmiris. The government admits to some individual cases of soldiers stepping out of line but says foreigners pay too little attention to hrutalities committed by insurgents. Delhi is considering responding to criticism by permitting visits of foreign human rights organisations to Kashmir and publicising the punishments given to soldiers found guilty of murder and other serious human rights abuses.

Nevertheless, India can take comfort from the fact that, if its international reputation has suffered on account of Kashmir, Pakistan has recently fared much worse.

The US has condemned its alleged support for terrorists, including fighters in Kashmir, its narcotics trade and its purchase of missile technology from China. Islamabad was forced to work very hard to persuade Washington not to put it on the list of terrorist nations earlier this year. It remains under close observation.

But when it comes to arms, particularly nuclear weapons, Washington's eye is fixed equally firmly on both India and Pakistan. The US wants hoth countries to eign the Nuclear Non-Proliferation Treaty to inhibit the epread of nuclear weapons.

Pakistan says it will sign if India does. India says it will not sign unless countries possessing nuclear weapons also agree to give them op. India firmly believes that developed countries cannot enshrine in law a permanent strategic advantage over less developed states. As Mr Kurshid says: "You can't divide the world into haves and have nots."

The US has applied sanctions restricting trade in arms with Pakistan and, to a limited extent, with India. Most recently, it put pressure on Russia to cancel the proposed sale of specialised rocket angines to India. India's response is to try to develop the engines indigenously.

Even as they talk to American officials, both Delhi and Islamabad continue with nuclear and missile development programmes.

Delhi'e strategy is to have weapons-making technology ready without necessarily making the weapons themselves. Islamabad has admitted actually making bomhe. Fortunstely, as poor developing countries, the two states do not have limitless resources to pour into weapons. But for each, especially Pakistan, military spending places e heavy burden on the economy at a time when both are trying to modarnise and promote growth.

Delhi's strategy is to have weapons-making technology without making the weapons

The hostility casts a pall over India's relations with its other neighbours. India would like to promote regional co-operation and trade through the South Asian Association for Regional Co-operation.

The SAARC would also like to act as a spokesman for the region on global issues and would welcome its neighbours' support in its discreet campaign for a permanent seat on the United Nations Security Council.

Cash constraints are hurting the armed forces, writes **Sara Webb**

Soviet collapse leaves a gap

THESE are lean times for India's ermed forces. In the current climate of government belt-tightening, defence spending has declined in real terms while the cost of procuring new equipment has risen following the collepse of the Soviet Union, formerly India's biggest source of defence equipment.

India desperately wants to upgrade and modernise its defence force. However, the combination of less spending money and the loss of its most important supplier will force India to concentrate on indigenous production of equipment wherever possihle over the next few years.

Whatever Indie cannot develop itself in terms of technology and know-how, it will have to import from abroad or obtain hy forging joint-venture and co-operation agreements with foreign partners.

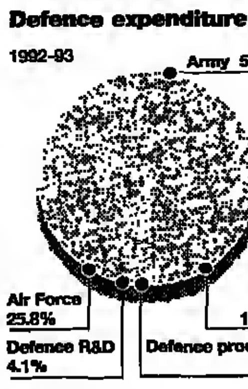
With its armed forces of aboot 1.3m, India has one of the world's largest volunteer corps to defend against various external and internal security threats. Its chief concern is the threat posed by Pakistan: the two countries have been et war three times since 1947 and Pakistan, like India, has beeo developing noclear capabilities as well as conventiooal arms. Meanwhile, relations with China, which defeated India in a brief war in 1962, have improved steadily since the late 1980s. China is oo longer seen as a hostile oeighbour, so India has beeo able to reduce its troops aloog thet border.

India has verious internal security problems, of which the most important is Kashmir. Increasingly, the army is being called upon to help control domestic unresl such as the religious riots and disturbances lhet occurred after Hindu militants destroyed the Ayodhya mosque – primarily because the police, with a repotation for corroption and inefficieocy, heve proved unable to tackle these problems successfully themselves.

However, much to the annoyance of the hawks in India's armed forces, the government has curbed defence spending as part of a wider effort to control puhlic expenditure.

Defence expenditure

1992-93



Source: Government of India

The defence budget has conlioned to rise in oominal terms each year but, in real terms defence spending has actually declined over the last five years. Added to which, defence spending as a percentage of India's GDP has seen a rapid fall in recent years: it peaked at 4.06 per cent of GDP in 1987-88, and fell to 2.75 per cent of GDP in 1992-93. Mr Jasjit Singh, director of the Institute for Defence Studies and Analyses in New Delhi, predicts that defence spending will represent just 2.44 per cent of GDP in 1993-94.

"India has enough money to run its defence forces, but not to modernise it," says Mr Singh. Defence experts claim india is already cutting back on the support side and limiting training exercises in order to save money and preserve its diminishing stock of spare parts.

As for new defence projects, the future looks hleak, even though the airforce needs to upgrade e lot of its equipment. "There'e not much money around so you won't see much investment in new defence projects," warns Mr K. Subrahmanyam, a defence writer and analyst. "No one is going to put out the welcome mat for arms sellers."

The only substantial defence order to emerge from India in the near future is likely to be for new edvanced jet trainers (AJTs), which are e high priority for the air force. The goverumeot is reported to have earmarked ebont $1.1bn for the ecquisition of 80 AJTs and has shortlisted the Hewk trainer, made hy British Aerospace, and the Alpha Jet, its Franco-German rival.

"The final decision on the AJT will be based on many factors including money, and how we can develop the Indian defence industry – in other words, whether there would be production in India," warns Mr Singh.

As for its other defeoce needs, India already has several projecls under way, although there is some concern over whether these will reach fruition given the present financial constraints. Hindustan Aeronautics (HAL), the state-owned defence group, is developing India's Advanced Light Helicopter and hopes to launch productioo next year. HAL is also working on the development of a Light Combat Aircraft (LCA), and says the first prototype will fly in mid-1996.

The army has already started testing the locally-produced Arjon hattle tank, though prohlems were reported in the press about its ability to operate in difficult desert conditions where the high temperatures affect its performance.

India also has a major missile programme. This includes the "Prithvi", e medium range, surface-to-surfece missile which was successfully test-fired earlier this year, and the "Agni" medium range ballistic missile technology demonstrator, which is not as far advanced in its development as Prithvi. In addition, India is developing surface-to-air missiles and a new generation of anti-tank missiles.

"India has a huge indigenous capability, but it needs to acknowledge that some countries are further ahead in certain fields. Instead of continuing to re-invent the wheel, India should try to buy what it needs to push its defence projects forward," says e defence expert, who argues that it might have made more sense for India to buy foreign tanks rether than waste years developing its own.

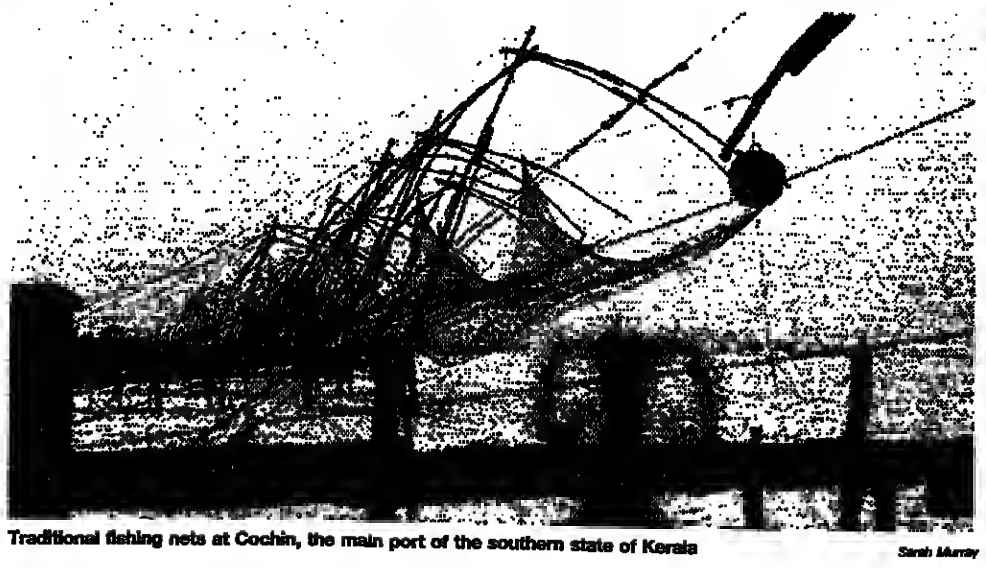
The prohlem for India, however, is that it can no longer obtain foreign equipment et the bargain basement prices it paid in the past. Its key supplier of defence equipment was the Soviet Union, and India benefited from rouble-rupee trade, soft credits and long-term repayment schedules. "Some 75-80 per cent of Indian defence equipment is of Soviet origin, and 95 per cent of that was manufactured in India," says Mr Singh.

However, after the break-up of the Soviet Union, India found the newly-independent states wanted payment in hard currency instead. On top of that it has proved difficult to obtain spares from the individual suppliers which are based in various former Soviet republics. Consequently, defence experts point out that where India cannot afford to buy the latest equipment, it may find it more beneficial to establish joint ventures or close co-operation agreements with Western manufacturers in order to obtain the necessary technology and systems while providing any foreign partner with a cheap production base for potential exports in the Asian region.

"Over the next three or four years, India is unlikely to buy much from foreign companies unless they actually set up production here," says Mr Subrahmanyam. HAL already has joint venture and co-operation agreements with foreign partners. Mr Singh believes that India would benefit by establishing joint collaboration in components and sub-systems, ranging from wiring, switches, connectors, and sonar systems.

But while in theory such a route may be attractive for both sides, in practice such ventures could take e while to get off the ground. "Don't forget, with such a joint venture, outside companies would have to deal with the government, and that's not easy because of the hureencracy," says e defence expert.

An army parade in Delhi to celebrate the founding of the republic



Traditional fishing nets at Cochin, the main port of the southern state of Kerala — Sarah Murray

A craftsman working in teak at a factory in Bangalore — Ashley Ashwood

An ancient church in Goa, the former Portuguese colony — Sarah Murray

■ TOURISM

Undersold attractions

THE TAJ Mahal is in the final stages of a clean-up. When workmen have finished scrubbing its marble dome early next month, visitors will see "a shining new face of the Taj," says Mr Ghulam Nabi Azad, the minister for tourism and civil aviation.

The ministry is so convinced that the Taj will look even more special than before that it is raising the entry fee from Rs2 to Rs10. Also, for the first time in many years, officials will open the monument in the evenings so that visitors can once again see the sight which sent Mughal poets into raptures – the white dome of the Taj bathed in moonlight.

Unfortunately, it will take a lot more than renovating the Taj to improve the image of Indian tourism. Even though the country has enough attractions to fill a continent, it is finding it difficult to lure visitors to India.

Tour operators are reeling from the combined impact of last year's inter-religious riots, bomb blasts, and air crashes, as well as the persistent bad effects of repeated airline strikes, bureaucratic delays and poor service. Non-resident Indians are still coming to India and so are backpackers. But the big-spending western travellers are not coming in the numbers that India had hoped.

If the sights of India are unforgettable, so are the frustrations involved in trying to see them

Last winter's unrest came too late for many visitors to cancel their travel plans and the number of tourists rose by a hefty 28 per cent to 1.87m. But this year's figure may show no increase at all because would-be visitors have time to seek alternative destinations.

Mr O.P. Ahuja, an executive committee member of the Indian Association of Tour Operators, says that about 10 of the 14 US tour operators active in India have this year cancelled programmes. Thomson, the UK's largest travel company, and Nippon Travel Bureau, the biggest operator in Japan, have both cut back. "I am not very optimistic about this year," says Mr Ahuja.

There is little the Indian tourism industry can do about riots and bomb blasts, except wait for potential travellers to forget about them. However, much of the malaise in Indian tourism – such as the persistent airline strikes – is of the industry's own making. If the sights of India are unforgettable, so, sometimes, are the frustrations involved in trying to see them.

India is a developing country with many needs more pressing than keeping tourists happy. Western tourists coming to India cannot expect the same levels of comfort and efficiency as in their developed states. Also much of India's great charm lies in its other-worldly atmosphere. Its villages and temples are often suffused with a gentleness quite remote from modern life. Even its cities hide corners of tranquillity, such as the tombs of the Lodi kings in Lodi Gardens in Delhi. However, other developing countries – notably Egypt – have managed to promote tourism despite their political and economic difficulties.

India's most serious problem is domestic transport. Indian Airlines, the main state-owned domestic carrier, has a poor reputation for service. In the last two winters it has also been hit by long pilots' strikes which spoiled many a holiday-maker's visit. An elderly German woman travelling through Bombay last year was almost in tears after spending 40 hours on trains covering the ground she had expected to cover by air. "The other 19 people in my group cancelled when they heard about the strikes. I should have cancelled too," she said.

Service on Indian Airlines is improving rapidly in response to competition from newly-launched private airlines, which have captured about 20 per cent of the market. But labour relations remain tense – not least because Indian Airlines pilots are demanding that their pay and conditions stay on a par with the private companies' pilots. It would be rash to bet on a strike-free 1993-94.

As far as hotels are concerned, India's luxury chains – including the Taj, Oberoi and ITC groups – are generally on a par with their counterparts elsewhere in Asia. However, except in Goa, a long-established tourist centre, India lacks reliable networks of tourist-class hotels. Too often the foreign visitor is faced with a choice of paying over $100 a night or less than $10 – with nothing in between.

Even the luxury chains have little control over the management of tourist sites – museums and wildlife parks, etc – which is mostly in the hands of the central and state governments. At their best, these can be effective, such as the organisation of a *son et lumière* show at Delhi's Red Fort, home of the last Mughal emperors.

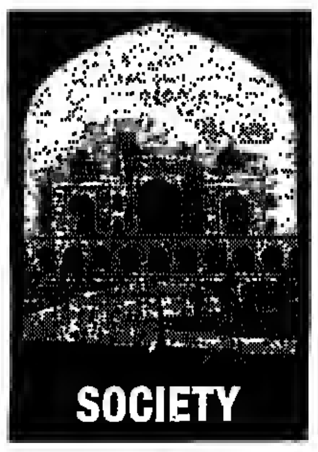
But too often there are monumental difficulties even in making bookings. Take for example Corbett Park, a wildlife sanctuary in the foothills of the Himalayas in the state of Uttar Pradesh which is run by the state government. It is possible to stay in the middle of the park in a simple tourist centre, which stands on the edge of a wild and beautiful lake.

But control over the rooms in the centre is split between three offices – in Delhi, Lucknow and the town of Ramnagar, which is more than an hour's drive from the park. Trying to make a reservation can involve ringing all three to ensure that a room booked in one office is confirmed by the others. By the time the visitor reaches the sanctuary itself it is too late – even if there are empty unreserved rooms, the staff are not allowed to let them.

Mr Ahuja says the underlying problem is that even though some state governments – such as Rajasthan – promote tourism, most care too little. "They can't see that they would benefit from the revenues and the jobs it will bring." The central government tries to promote change with publicity campaigns but it is hampered by the constitutional division of power which gives the states the prime role in controlling tourism.

India hopes to attract 5m visitors annually by the year 2000. It is hard to see how it will do this unless it learns to look more carefully after those it already draws.

Stefan Wagstyl



In the age of the washing machine India's dhobis carry on scrubbing

An honourable profession

Tillan Prasad, who is 72, has been washing clothes with his hands for 61 years. Like thousands of other washermen throughout India, he beats the dirt out of the laundry by smashing it against stone. His grandfather was a washerman and his father and two of his four sons have joined him in his trade.

Like others born into the traditional caste of dhobis (washermen), Mr Prasad never thought of doing anything else. He says: "Dhobis have lots of work. I've never been short of money."

Mr Prasad lives with about 30 other dhobis and their families in a collection of huts in central Delhi. All around are piles of washing brought from middle-class homes. Each load is carefully kept separate from others to make sure the laundry does not get mixed up. The dhobis' work looks as if it has not changed in hundreds of years.

Yet, modernisation is slowly creeping into Mr Prasad's life. New-fangled soaps, washing powders, irons and even washing machines are steadily changing the lives of India's dhobis.

For some dhobis, India's economic modernisation has brought a loss of business as their customers have bought washing machines and dispensed with the dhobis' services. Last year alone, 500,000 washing machines were sold in India.

But most washermen have easily found other clients as the growth which has made some families rich enough to buy a washing machine has enabled others to afford a dhobi for the first time.

Also, says Mr Prasad, no washing machine is as good as a dhobi. He waves his wiry brown arms in the air saying: "This is how a washing machine washes. It cannot rub the clothes very hard."

Then he presses his calloused hands together and says: "This is how we rub. Very hard."

Mr Prasad says that his customers too have washing machines. But they use them only for delicate clothes. A washing machine is no good for laundering sheets, curtains and dhurries. Besides, he says, some people buy washing machines only for show.

New-fangled soaps, washing powders, irons and washing machines are steadily changing the lives of India's dhobis

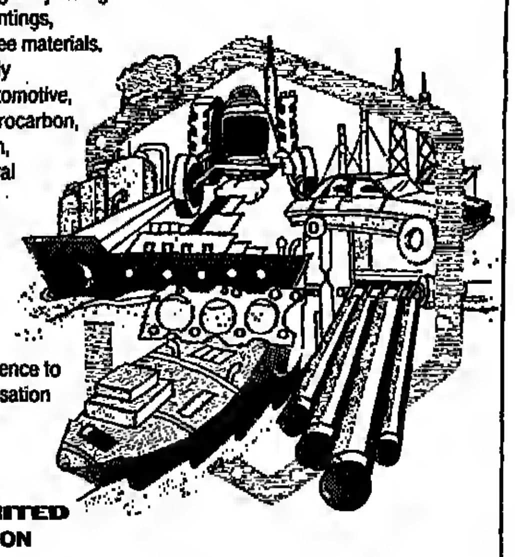
Mr Prasad says that over the decades his work has become easier. When he started he could use only poorly-made laundry soap. Today, he has a choice of international-brand powdars. "I use Tide and Surf," he says.

He is also one of the few dhobis among his friends to own an electric iron. Most of the others still use irons heated from the inside by hot coals.

His son Vijay Prasad says he believes he has a good future in the laundry business. Even if many more customers have washing machines, they will still need dhobis for the heavy work. Also, factories, hotels and restaurants are growing throughout Delhi and use dhobis for their laundry. Vijay Prasad says he and his friends would take on more work if only they had space to hang out the washing. "There is not enough room here for big sheets."

Tillan Prasad and his two dhobi sons live together with their wives and the sons' children. Their hut has only two rooms, but it has electric lights, fan and a television, which is switched on whether someone is watching it or not. Tillan Prasad is very proud of it, not least because it was a present from a client – Chandra Shekhar, a former prime minister.

Stefan Wagstyl



FILMS AND MORALITY

From modesty to the naked truth

"What's behind that blouse?" – Madhuri Dixit, India's leading star, in the scene that had the country talking

MADHURI DIXIT, India's number one film star, has captured the public imagination with her pulsating song and dance number in *Khalnayak* (evil one), the latest product of Bollywood (Bombay-Hollywood).

Playing a bewitching village belle, she clutches her bosom and asks suggestively, "Choli ke peechhe kya hai (What's behind my blouse)?" She adds innocently: "Choli mein dil hai mera (my heart's underneath)."

The song, which sold more than 3m copies even before the film was released, and could be heard at every street corner, caused a raging controversy when a Delhi lawyer tried to have it banned as obscene. Fortunately, the court upheld the censor board's decision to permit it.

Indian films, especially some made in the regions, are replete with innuendo, and the "Choli" song was tame compared with some of the steaming sex and mindless violence that escape the censor's scissors.

As film-goers flocked to see *Khalnayak*, Mr Subhash Ghai, the director, defended his stand that the song was "ticklish and naughty, but certainly not obscene".

The petitioner, he said, was "trying to foist narrow-minded morals on the rest of the community."

The cinema, like Indian society, has always had double standards about sex. Film-makers who only recently began showing kisses on the mouth, thought nothing of draping a heroine in a diaphanous sari, which left nothing to the imagination.

"What people have always secretly desired to see is now being shown more openly," says Mr Manmohan Desai, one of India's most successful directors. Romance in Hindi films is no longer confined to cavorting around trees and songs about birds and bees.

The Bombay potboilers reflect a society in transition, in which one of the most palpable changes is the new sexual permissiveness.

It is more prevalent in the towns than in the villages. But cinema reflects it faithfully.

The Bollywood formula goes something like this: a young couple has just made love, gunmen enter the room, spray the husband with bullets, their little son comes toddling in, and watches his mother being raped. He then grows up to avenge his parents, often in the guise of a policeman.

The film industry cannot afford to be coy if it is to withstand the deluge of X-rated films from video libraries and the entertainment dished out through cable and satellite television.

Film directors often "borrow" a combination of five or six sexy scenes from foreign movies, throw in some blood and gore, some pulsating Indianised disco stuff, and then laugh all the way to the bank.

Indian sexuality is apparent not only in films but also in advertising, journalism, and fashion.

Inviting readers' to relate their attitudes to sex, *Glad Rags*, a Bombay fashion magazine, recently observed that "our most intimate private moments are coming out of the bedroom and into the public domain". It adds: "If drinking can suddenly become such an open sociable event, can sex, the obsession of mankind since the original temptation, be far behind?"

Dr Prakash Kothari, Bombay's best-known sexologist, confirms that people are more sexually aware than ever before, but says that the modern attitude is "not a sudden change, but the result of a long struggle to throw off the shackles of ignorance and view the sexual phenomenon in the light of reason".

But he regrets that "films, the media, and advertising provide only titillation, and no knowledge, so common misconceptions and ignorance about sex persist."

Ms Mira Savara, a sociologist, who last year conducted a rare Indian sex survey for *Debonair* magazine, maintains that the sexual revolution is not new. "It's a myth that Indians are not forthcoming about their sex lives or that they have ever been sexually conservative."

Her survey, answered by 1,500 readers (only 67 of whom were female), proved that Indians could be quite open about their sex lives – if they were given a chance to tell.

"There may be a great deal of sexual inhibition in this country, but when it comes to brass tacks, people are not sexually conservative," says Mr Kersi Katrak, executive creative director of Lintas India, which rocked Bombay with its daring Kamasutra condom campaign in 1991.

This departed from conventional condom advertising in which romantic couples hold hands in the daisy fields, and showed sex symbol Pooja Bedi in suggestive poses with a macho male model.

The campaign, attacked by parents as a bad influence on their children, talked about sex for sex's sake, and "the pleasure of making love", for the first time in Indian advertising. "The product was blatantly sexual and so is our campaign," says Katrak.

The ads were essentially a modern depiction of imagery from the Kamasutra, India's centuries-old sexual manual, and the luxury condoms made marketing history.

The agency had expected even stronger public outrage than actually occurred. "This only goes to show that Indians have finally grown up," says Mr Katrak.

Shiraz Sidhva

Satellite TV has taken the nation by storm

Entertainment at the push of a button

SHIRAZ SIDHVA reports that India is at the heart of the 1.2bn strong Asian television audience now being targeted by international media barons such as Rupert Murdoch and Ted Turner

INDIA has finally become part of the great TV global village.

Gone are the days when the unimaginative and politically-motivated bureaucrats who presided over Doordarshan, the government-controlled national network, decided what was best for India's 335m television watchers.

Today, viewers can choose from five Star TV channels (BBC world service, Prime Sports, MTV music channel, Star Plus entertainment channel, Zee TV, a Hindi language channel) as well as CNN, Dubai Television, Pakistan Television, two channels from ATN (Asia Television Network), five channels from Doordarshan state television and the Asianet Indian regional language channel in Malayalam.

That's not all. International television companies, like soft drinks and cigarette companies, are targeting newer markets, as their domestic markets level out.

Asia, with its 1.2bn viewers and a wave of government deregulation and technology, affords the greenest pastures. Media barons such as Rupert Murdoch and Ted Turner have staked their claim. Two months ago, Murdoch paid $525m for a 63.6 per cent stake in Hutchvision, the Hong Kong-based company which owns Star TV.

A formidable new consortium comprising Time Warner's HBO Asia, Turner Broadcasting corporation (which owns CNN), ESPN International, the world's largest producer of sports programmes, Viacom, owners of MTV, Australia's entertainment channel, AUSTV, and Hong Kong's TVB, with a large bank of Chinese programmes, is all set to make a foray into the Asian market. The Pearson group, which owns the Financial Times, is also exploring the Asian, and Indian market.

All the new entrants, including Murdoch's newly-acquired Star (which recently signed up a marketing joint venture in India with Bombay-based MediaScope and the Deccan Chronicle newspaper group), seem to opt for some kind of overseas partnering, which makes local political and social obstacles easier to surmount.

If Asia is television's newest frontier then India is at its core. Star's phenomenal success has been bolstered by the fact that India has the largest English-speaking population outside Europe and America, and a rising middle class that is only too happy to add more channels to its widening television horizon.

Star, dismissed by the Indian government two years ago as a luxury channel that some of the country's elite would watch, today has a fast-growing audience of 18.8m, a 150 per cent increase since June 1992.

The Star Plus soaps, Santa Barbara and The Bold and the Beautiful, are discussed endlessly in drawing rooms across the country; the hourly BBC news has all but replaced Doordarshan's lacklustre coverage of events; and a whole new genre of Asian rock and pop stars have found their voices on Star's Asian version of MTV.

Star, which is distributed through local cable television operators with no previous experience in the trade, had little competition until six months ago, but is now the most powerful satellite distribution system in the region.

There are also other contenders, some of them from inside the region. "When viewers have a surfeit of programming to choose from, they are increasingly going to look for programmes that they can relate to, in languages that are their own," says Mr Sashi Kumar, president of Asianet, a Madras-based TV company.

Mr Kumar had previously bought time on a Russian satellite to beam programmes in the Malayalam language to the people of Kerala, on India's southern-most tip, and to Malayalam-speaking communities in the Gulf countries. He says: "the new trend in television is going to be narrow-casting." By that he means identifying an audience and giving it the programmes it wants in the language it understand best.

Asianet, besides generating its own software, has embarked upon an ambitious Rs1.4bn programme to make cable accessible to the entire state of Kerala. Not content with leaving the distribution of its channel to private operators, the company has signed an agreement with Pan Asian Systems, a subsidiary of the Hong Kong-based Hutchison Whampoa, to lay coaxial cables along the state's electricity lines, with franchisees to service the channel.

The cables, fed by dish farms or a conglomeration of satellite dishes (15 or 20 of these "farms" cover the whole state) have a capacity to carry up to 50 channels, and are currently offering subscribers the five Star channels, besides Asianet's Malayalam language channel and the Doordarshan channels. Other channels in different South Indian languages will be added.

International TV companies will also have to reconcile internationalism with localism if they are to win foreign markets.

The government, in a belated attempt at salvaging its viewership, is planning a series of 21 channels (through digital compression technology) by the end of January, and 10 regional channels in the next month. The rush for the Indian airwaves is still on, but in the next few years, audiences will ensure that only the best survive.

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday September 30 1993

INSIDE

Mercedes to reveal Alabama plant

Mercedes-Benz, the German luxury car company, ia expected to announcs today that it has decided to locate its first US car manufacturing plant, costing $300m, in Alabama. Page 23

Strong growth at Italian telecoms

Italy's main state-controlled telecommunications groups, which are dus to be rationalised and sold to the public, reported strong first-half profits growth. Page 20

Family ties for SHV Holdings

If SHV Holdings floated its shares, it would probably rank as the Netherlanda' fifth-biggest public company, and it would open up to non-family investors a company that has grown rich on liquefied petroleum gas. Page 20

Europe taps US water

Tha fragmented US water industry is moving towards greater consolidation. The growing interest of European companies in this largely untapped American market suggests a period of accelerated change is under way. Page 22

TV ownership changes predicted

Mr Leslia Hill, chairman and chief executive of Central Independent Television, predicted that ownership rules governing ITV companies would be changed to allow the nine largest companies to take each other over. Page 26

Adwest announces rights issue

Adwest, the automotive components and power systems group, has announced a £22.2m ($34m) rights issue to fund acquisitions and s 35 per cent increase in annual pre-tax profits to £9.4m. Page 27

MGN share sale raises £358m

Mr John Talbot of Arthur Andersen, joint administrator to Robert Maxwell Group, announced that ali 219.68m shares on offer in Mirror Group Newspapers – 54.8 per cent of the total – had been sold at 170p. The sala will raise £373m ($565m) gross with expenses expected at about £15m. Page 27

French farmers beef about Gatt

French differences with Brussels and Washington over farm trade start from different assumptions. Chief among them is that French agriculture weighs far more heavily in the political and emotional life of the country than the 3.5 per cent it contributes to gross domestic product. Page 34

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
Aachen Mch	1300	+	40	Chargeurs	1180	+	46
Falls				Eridania B-Say	815	+	21
Asko	805	-	13.5	Fonc Lyonnaise	620	+	28
Berliner Bank	375	-	12	Skis Rossignol	1690	+	72
Colonia Konzern	1230	-	20	**Falls**			
Holzmann Ph	885	-	15	BIC	1235	-	89
Schmalbach Lub	319.5	-	10.5	Cr Fonc France	1157	-	28
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Anadarko Pet	46⅝	+	4¼	Dai-ichi Kotel	540	+	49
Brabdras Sav	18	+	3⅛	Ishii Food	1130	+	80
Paramount	79	+	1⅞	Kageshige	935	+	65
Phillips Pet	33⅛	+	1¾	Mikasa	7	+	2
Falls				**Falls**			
Amsco Fin	7⅝	-	3¾	Kyoshe Matsushi	2600	-	500
Viacom	60	-	1	NKK Corp	283	-	12

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Bluebird Toys	477	-	18
Adwest	183	+	11	Central ITV	2068	-	50
Cable & Wire	490	+	23	Dawbs	18	-	3
Celtic Gold	15	+	3	Fitch	11	-	3
Costain	37	+	4	Hogg Group	172	-	39
Hadleigh	87	+	5	Huntleigh Tech	449	-	20
Jacobs (J)	38	+	6	Iceland	192	-	6
Lincat	215	+	22	Kode Int	158	-	17
Mir Trust	470	+	17	Mirror Group	170	-	7
Regent Inns	190	+	11	Penna	130	-	35
Sanderson ME	135	+	10	Scot Newcastle	459	-	11
Falls				Usher (F)	117	-	6
Acorn Computer	88	-	23				

Mazda forecasts much bigger loss

By Michiyo Nakamoto in Tokyo

MAZDA, the Japanese carmaker 24.5 per cent owned by Ford of the US, yesterday said losses this yesr would he substantially larger than forecast, and it would pass the dividend for the first time.

Pre-tax losses at Mazda are now forecast st Y32hn ($300m) rather than Y12hn estimated in May, while sales are expected to fall from a forecast Y2,070bn to Y1,920bn. This would be the first loss for Mazda in 23 years.

The revision reflects the severity of the business climate surrounding Japanese carmakers at home and abroad.

Last month, the industry saw exports decline 14.7 per cent, in its fifth consecutive monthly fall and worst performance in 14 years, according to the Japan Automobile Manufacturers' Association.

Mazda said that the loss would arise largely as a result of the yen's sharp appreciation during the year and s worse-than-expected downturn in Europe.

Mazda doea not expect to return to profit next year as it sees little hope for a strong recovery in either the Japanese or European markets. Mr Makoto Miyaji, executive vice-president, said *Mazda* hopes to return to profit and resume dividend payments in fiscal 1995.

The yen's appreciation ia expected to shave Y65hn off annual revenues while the fall in European sales will make up most of Mazds's expected 18 per cent decline in sales overseas.

In Europe, Mazda is forecasting an 18 per cent fall in sales from 292,000 units last year to 240,000 units. This compares with a 16 per cent fall in overall demand in Europe.

Unit sales in Japan are expected to fall 3 per cent from 470,000 units last year to 455,000.

Mazda has already introduced some restructuring measures, but was not able to "catch up with the changing business environment within a short period", it said.

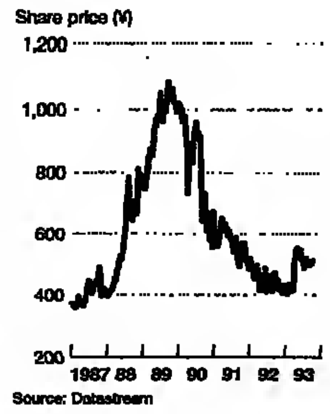
It is closing a production line in Hiroshima where it employs about 300 workers.

Restructuring plans will be strengthened and brought forward. Staff levels will be reduced through natural wastage by 3,000 over the next 3 years rather than 1,500 as initially planned and 1,500 office workers will be moved to other duties.

The company is cutting costs and reducing its capital expenditure from Y80hn last year to Y60hn. It is also considering reducing the number of cars in its range, Mr Miyaji said.

Global overcapacity, Page 24

Mazda



Source: Datastream

Fiat stock falls as investors digest deal

By Haig Simonian in Milan

SHARES in Fiat, the industrial gronp which this week announced Italy's biggest-ever rights issue, fell sharply yesterday as investors digested the blghly dilutative deal.

Fiat's ordinary shares dropped almost 8 per cent to L5,595, while preference shares fell more than 9 per cent to L3,085 in Milan. Trading in Rinascente, the Fiat-controlled retailing chain which is to be sold, remained suspended, while the Consob stock market authority called a halt to trading in Ifil, the listed investment group, which is to launch a takeover bid for Rinascente.

Fiat said it would sell its 58 per cent stake of the ordinary shsres of Rinascente to shareholders.

Fiat shareholders will be entitled to buy four ordinary shares in Rinascente for every 100 Fiat shares, of whstever category, cnrrently held. Preciae pricing and timing for the deal have yet to be announced. Subsequent to the sale, Ifil will launch a takeover for an indeterminate number of Rinascente shares at a price yet to be revealed.

The unusual structure of the transaction, wherehy control of Rinascente will pass to Ifil via Fiat's shareholders, rather than directly, was seen as a ruse to avold triggering Italy's new rules on compulsory takeovers.

The main donht focused on whether Ifil would launch a full takeover hid for all Rinascente's stock, or just on enough shares to obtain a bare majority. Ifil and Ifi, the quoted company which controls the former, will sutomatically gain a snbstantial stake in Rinascente as they are already among Fiat's biggest shsreholders.

Separately, Ifil reported net group profits rose 7 per cent to L225.1hn ($143m) in the first half from L210.4hn last year. The group, which already has a substantial cash pile, is to make a one-for-five rights issue, raising L492hn, to provide additional funds for the Rinascente takeover.

The new equity will be priced at L5,000 for ordinary stock and L2,500 for non-voting savings shares. Each new share will also carry a warrant, allowing shareholders to exchange two warrants for one new ordinary share at the price of L2,500 each by the end of 1996.

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World stock markets, Back Page

Alcatel stable despite slowing markets

By John Ridding in Paris

ALCATEL Alsthom, the French telecommunications and engineering group, resisted the impact of recession in some of its principal markets to announce stable first-half net profits of FFr3.01hn ($529m).

The results released yesterday compared with net profits of FFr3.12hn last year hut did not include exceptional gains. In the first half of last year, Alcatel recelved a capital gain of FFr440m from the sale of shares in the group.

The results follow confirmation that the company is to take a 2 per cent stake in Fiat as part of the Italian group's plan to raise L5,000bn ($3.2hn) in new capital. Alcatel will represent part of a stable core of shareholders in the Italian company, which will hold a reciprocal 2 per cent stake in the French company.

Alcatel said that the trends in the first half were expected to continue for the rest of the year and that full-year profits should be around the FFr7.05hn achieved in 1992.

Sales, which fell from FFr79.48hn in the first half of 1992 to FFr73.63hn this year, are expected to fall hy 5 or 7 per cent for the full year.

The first-half performance was constrained by the economic slowdown in several of the group's largest European markets. Alcatel said deterioration had been particularly marked in Italy and Germany.

In Asia, however, the group reported strong activity and said that important contracts had been won in all of its core husiness activities.

In March, the group won a $1.25hn contract in Hong Kong to huild a combined cycle power plant, which uses both gas and steam to drive its turbines.

In China, the group won a contract to supply digital telephone lines, while in South Korea, it won a highly-contested battle to supply a high-speed railway network.

This contract, won hy GEC-Alsthom, the Anglo-French engineering group owned 50-50 by Alcatel and GEC, is estimated to be worth about $2.4bn.

In addition to net profits, most of the group's other first-half financial results remained relatively stable.

On a constant exchange rate basis, sales fell just 3 per cent while operating margins were 8.1 per cent, marginally higher than last year.

Philip Rawstorne explains a UK brewer's purchase of 1,650 pubs

S&N goes south for £703m

By Philip Rawstorne in London

SCOTTISH & NEWCASTLE, the British brewing, retailing and leisure group, has agreed to buy Grand Metropolitan's Chef & Brewer estate of 1,654 pubs for £703m ($1bn).

GrandMet is also selling property interests in 235 of the pubs, owned by Inntrepreneur Estates, its joint venture with Courage, owned by Foster's Brewing of Australia, for £94m.

The pubs are believed to have attracted interest from hoth Whitbread and Allied-Lyons, two of Britain's largest pub operators, during GrandMet's long-running search for a buyer.

The deal with S&N will give the group a national chain of 2,700 pubs snd provide greater opportunities to expand sales of its McEwan's, Theakston and Beck's beer brands from its base in Scotland and northern England into the south.

S&N will pay £622m in cash for Chef & Brewer. The group is raising £405m in a one-for-four rights issue and will meet the balance of the cash payment from its own resources. The new stock will be issued at 390p, payable in two instalments.

Because of the government limits imposed on national brewers' puh ownership, S&N – which already operates about 1,800 pubs – will have to dispose of 748 outlets.

The disposal process will be helped by a newly formed subsidiary of Morgan Grenfell, S&N's financial adviser, which will acquire for £94m the interests of IEL in 235 pubs leased to Chef & Brewer, and will later pay S&N £22m for another 227 houses. It intends to sell the puhs as quickly as possible.

S&N will honour Courage's existing beer snpply contract with the pubs until March 1995 and Courage hrands will continue to be distributed to some of the outlets for another five years.

Chef & Brewer, according to S&N estimates, is expected to make profits this year of at least £66m. The acquisition should not dilute earnings in the first full year after completion.

For GrandMet, which on a different accounting hasis values the total deal at £830m, the disposal underlines its repeated intentions of developing the group as an international hranded husiness in food, drinks and retailing.

Consuming many measures with one big gulp

Scottish & Newcastle has achieved several important strategic objectives in a single step with the acquisition of Grand Metropolitan's 1,654 Chef & Brewer pubs.

After disposing of 748 pubs – to meet limits imposed by tha government – S&N will be left with 2,700 outlets.

More than 60 per cent of the GrandMet pubs are in southern England, complementing S&N's existing estate which is nearly 70 per cent in Scotland and northern England.

This wider national presence will provide S&N with a solid hase from which to promote its portfolio of beer hrands – including Younger's, McEwan's, Theakston's, Beck's and Coors – and strengthen its operations in the independent puh trade and take-home market.

Integrating Chef & Brewer into its existing pub retail business will offer scope for cost savings, and give S&N more negotiating clout in the purchase of wines, spirits, soft drinks and food.

GrandMet's disposal offered an opportunity to acquire a big parcel of high quality, well located pubs. They include the directly managed houses which formed the top profit generators of the GrandMet and Courage estates.

During 10 months of negotiations, S&N has inspected every pub. About 300 are likely to be refurbished in the first year, at a cost of hetween £50,000 and £60,000 a pub.

The deal makes S&N a much more significant participant in a UK pub market which has been snhatantially restructured. Though the national hrewers remain among the biggest operators – Bass, Allied-Lyons and Whitbread each have more than 4,000 outlets – they have disposed of 11,000 pubs from their estates to comply with government orders. Regional hrewers, such as Vaux, Marston and Greene King, have used the opportunity to strengthen their estates, and many of the pubs were sold to individual tenants.

But the main structural change has been the entry into the market of independent pub retailing groups. They include former hrewers such as Boddington and Greenalls, which has increased its pubs to more than 2,000 with the £214m takeover of Devenish; Puhmaster, the Brent Walker subsidiary; and entrepreneurial operators such as Wetherspoon, Regent Inns and Enterprise Inns.

The changes have encouraged the spread of retailing skills, that are beginning to improve the prospects of a business that has been badly hit hy the recession and changing demographics.

GrandMet's disposal of Chef & Brewer, meanwhile, hrings more consistency to its recently restated aim of huilding international hranded businesses in food, drinks and retailing, underlined yesterday by its acquisition of Glen Ellen wines in the US. The £622m cash it receives will reduce its £3hn debts, cutting gearing from 82 to 63 per cent.

Property sales by Inntrepreneur Eatates, the GrandMet/Courage joint venture, will also reduce from £130m to about £80m the amount which the partners have to inject into the operation next month to comply with banking covenants.

Inntrepreneur, the country's biggest pub operstor with 6,800 outlets, is expected to be floated as soon as it becomes profitabte.

Lex, Page 18;
Financial details, Page 28

Trevor Humphries

S & N's Brian Stewart (left) with Morgan Grenfell's Rory Macnamara

Costain cash call to cut debt

By Catherine Milton

COSTAIN Group yesterday made the latest in a series of moves to curb its high gesring with a 5-for-4 rights issue to raise £83.9m ($129m).

The UK construction and mining group's share price, which peaked at 366p in 1987, closed up 4p at 37p on news of the issue, priced at 30p.

Mr Peter Costain, chief executive, said the proceeds would he used to reduce debt and underpin the US coal mining husiness.

The issue reduces gearing from 182 per cent to 51 per cent pro forma at the end of the first half. On the same basis, net debt of £204.7m falls to £121m. The figures exclude borrowings of £15m held off-balance sheet in a joint venture.

The company has fixed assets of £272.1m. These include £63m reflecting both the potential of the company's one-third share in the Spitalfield's development and an £18m premium to be paid to the City of London over three years. Costain also has a loss-making Spanish house huilding joint venture on its books at £18m.

The cash call brings the total generated from five years of fund raising through disposals and share issues to roughly £470m.

At the time of its last rights issue, for £77m, Costain planned to maintain its dividend at 12.25p for 1991, hut managed only the 4.75p interim payment and has not paid a dividend since. It said yesterday it did not plan a dividend before 1995.

The company this year sold its Australian coal mining business for £157m to Peabody Coal, a Hanson subsidiary.

The disposal helped lift the company's interim pre-tax profits by £68.5m, from a restated £2.5m to £69.4m.

Turnover rose to £623.6m from £614.3m. Opersting profits of £14m – including a £6.1m contribution from discontinued operations – just covered interest charges of £13.1m.

Engineering and construction increased operating profits almost 50 per cent to £6.7m. "The trading performance was good in a very tough market, which represents in part the fact that we are moving activities into higher margin areas, particularly overseas," said Mr Costain. The company lost on three "small" Middle East contracts, hut hoped to recover them on two.

Operating profits in US coal mining were a static £5m, held back hy delays in obtaining a permit for one contract and failure to renegotiate s second.

Earnings per share, including the disposal gains, were 28.5p compared with losses of 1.3p.

The rights issue is fully underwritten by Morgan Grenfell. Joint hrokers are Hoare Govett and NatWest Wood Mackenzie.

Italian state telecoms up strongly ahead of sell-offs

By Haig Simonian in Milan

ITALY'S leading state-controlled telecommunications groups, which are due to be rationalised and sold to the public under a greatly simplified structure, reported strong profits growth in the first half of 1993.

Stet, the overall holding company, said consolidated gross profits rose to L1,788bn ($1.1bn) in tbe first half from L1,566bn, while pre-tax earnings at parent company level rose to L428.1bn from L400.9bn.

The group forecast earnings for the year would be in line witb those for 1992, when group net profits amounted to L1,425bn. Sales are expected to rise by about 10 per ceot over the 1992 level of L27,167bn.

Group turnover in the first half increased by 7.4 per ceot to L14,242bn, excluding sales by Finsiel, the software and information technology company bought by Stet in the second half of last year.

Analysts, who have been strongly recommending Italian telecommunications stocks this year on privatisatioo prospects and expectations of higher earnings, were relieved to see investment spending falling to L3,445bn in tbe first half, against L4,632bn in the same period last year. Italy's state telecoms groups have spent heavily in recent years to modernise the network, leading to a string of rights issues.

Stet gave no details of the rationalisation of the country's telecoms utilities, due to start at the end of this year with the merger of Sip, the main domestic operating subsidiary, and Italcable, the leading internatiooal phooe carrier.

However, it indicated that progress towards rationalisation was also being made on the manufacturing and network services side, where functions are currently divided between four subsidiaries.

Separately, Sip said gross operating profits in the first half soared by 44 per cent to L991.6bn. The company forecast that this year's net earnings would be higher than the L461bn made lo 1992. The group, wbich this week announced it had reached 1m subscribers for its mobile telepbone service – the third biggest in Europe after the UK and Germany – rose by 7.6 per cent to L11,409bn.

Meanwhile Italcable, which is also quoted, reported a small increase in pre-tax first-half profits to L147.7bn from L143.3bn last year. Turnover rose 7.5 per cent to L383.6bn.

Bic shares drop after first-half earnings fall

By John Ridding in Paris

SHARES in Bic, the French manufacturer of disposable pens and razors, fell sharply yesterday following an announcement on Tuesday that first-half net profits had declined by about 21 per cent.

The company's shares lost FFr59 to close at FFr1,236, a fall of 6.7 per cent, as the stock market responded to a reduction in profits to FFr189m ($32.5m) in the first half of this year from FFr241m in the same period in 1992.

The earnings fall was much larger than expected. Ooe Paris-based analyst said he expected full-year profits to be less than 1992's FFr374m, rather than the small increase he forecast.

The decline in first-half profits was blamed on a oumber of factors. Earnings in the core activities of disposable pens, lighters and razors, were hit by the devaluation of several European currencies relative to the French franc.

The results included a one-off exceptional loss from the application of new accounting practices at Bic Corporation, the group's US subsidiary. The exceptional charge amounted to FFr34m.

The Gny Laroche fashion business cootinned to undermine profits. Analysts said the division had suffered losses of FFr47m, compared with FFr5m in the first half of 1992, as the fashioo iodostry strnggled with depressed demand.

SHV slowly unravels family ties

Ronald van de Krol looks at management changes at the Dutch group

IF SHV Holdings could be persuaded to float its shares, it would probably rank as the Netherlands' fifth-biggest public company, behind such stalwarts as Shell, Unilever, Philips and Ahold, and just ahead nf Akzo.

More importantly, it would open up to non-family investors a company that has grown rich on liquefied petroleum gas – it owns big stakes in tbe UK's Calor Group and Primagaz of France – as well as on the distribution of consumer goods through its 100-strong chain of Makro warehouse wholesale stores.

So far, there is not the slightest chance that SHV, by far the biggest family-owned company in the Netherlands and one of the largest in Europe, will end its unswerving 97-year commitment to private entrepreneurship.

However, changes are certainly afoot at the company, which generates sales of Fl 20bo ($11bn) in 25 countries, nearly three times the turnover of better-known Dutch companies such as Heineken. With 1992 net profit of Fl 545m, it had liquid assets of more than Fl 3.5bn at the end of last year and provisions of Fl 1bn.

Mr Paul Fentener van Vlissingen, the chairman who has sat on the board for 20 of his 52 years, last Friday announced the most far-reaching management reorganisation in SHV's recent history. Next July the company is to split into two operating snbsidiaries – energy and consumer goods.

More significantly, Mr Fentener van Vlissingen will pull back from daily management but remain chairman of the holding company and serve in a new role as a "special director" at the two operating companies until 2000. These will be run by existing non-family executives wbo belong to Mr Fentener van Vlissingen's management team.

This construction, whicb was proposed by two outsiders – Mr Dennis Stevenson, chairman of the SRU Group of the UK and Mr Manfred Kets de Vries, a professor at Insead business school in France – is designed to bridge a crucial gap until the next generation of the Fentener van Vlissingen family is ready to take over.

Mr Fentener van Vlissingen's two children and the seven children of his brothers Frits and John are between the ages of 25 and 35. Most are still either at university or in the first stages of their careers elsewhere.

"I'm the only member of the family among our 50,000 employees," Mr Fentener van Vlissingen said.

He had planned to retire outright in 1996, opening a gap in the direct family presence at SHV. However, "the family said, and the supervisory board said, that a large family company such as ours, with no direct link between the executives and the family, must have a quiet transition," he said.

Although Mr Fentener van Vlissingen will leave direct management, he plans to act as a "carrier pigeon" between management and the company's 800 shareholders and as a link to the group's extensive strategic partners around Europe.

Paul Fentener van Vlissingen: will serve in a oew role

Some 60 per cent of SHV's shares are in the hands of the Fentener van Vlissingens. Most of the rest are owned by descendants of the seven coal-merchanting families with whom the Fentener van Vlissingens formed a partnership in 1896.

Mr Fentener van Vlissingen said the proposed changes would inevitably affect the company's character because "the very personal element of who I am will disappear".

A more radical shift, such as a bourse flotation, is not planned: Mr Fentener van Vlissingen said SHV would remain privately-held. The launch of non-voting shares in countries such as Germany is no longer feasible because the popularity of this type of share has been dented, he said.

The company may float parts of the company to finance that particular sector's expansion. One example of this approach was the launch in late 1991 of a 40 per cent stake in Otto Reichelt, the group's German supermarket chain, on the German stock exchange.

Mr Fentener van Vlissingen cited the flotation of the 21 Makro stores in the UK as one possibility.

"Our management structure is so decentralised that [partial flotations] do not encroach in any substantial way on how we deal with our subsidiaries," he said.

Two of the group's brightest jewels are, for example, its 48 per cent stake in Calor and 50 per cent holding in Primagaz.

The key to SHV's ability to retain the loyalty of its 800 shareholders around Europe – the descendants of the Netherlands' premier 19th century coal merchants – is its arch-conservatism in financial matters.

"This company has to last another 100 years. There is nothing easier for a shareholder than to say 'I'm getting out'," he said.

"So you have to give shareholders tbe certainty that although they may go through difficult times, the company and the shareholders' capital – is not endangered."

Founder to quit UK book retailer

By Paul Taylor in London

MR Terry Maher yesterday announced he would step down as chairman and chief executive of Pentos, the UK book and stationery retailer, and retire from the board this year.

He will be replaced by a non-executive chairman, who has yet to be named, and a new chief executive who is likely to be a retail specialist appointed from outside the group.

Mr Maher's decision to resign was not unexpected given the group's recent weak trading performance and its first-ever interim losses.

Mr Maher is a qualified accountant as well as a fellow of the Royal Society of the Arts.

Shareholders are likely to have mixed feelings about the move. On the one hand Mr Maher has built Pentos into a significant force in retailing. On the other, the share price has plunged from 170p to just over 40p in the last two years. Details, Page 28

Fnac battle intensifies

By Alice Rawsthorn in Paris

THE fight for control of Fnac, the dominant force in French music and books retailing, yesterday took a new turn when Altus Finance and Compagnie Immobilière Phénix raised the value of their bid to FFr2,969 a share from FFr2,928.

The new offer follows an official investigation by the Paris stock market authorities into the circumstances surrounding the bidding for Fnac.

Under the terms of the original offer, Altus, a subsidiary of the Crédit Lyonnais banking group, and Phénix, part of the Compagnie Générale des Eaux utility concern, negotiated an option to buy the controlling 54.78 per cent stake in Fnac held by GMF, the troubled French financial group.

The revised offer, which is 1.4 per ceot higher than the initial bid, has already received the go-ahead from the stock market authorities. The conclusion of the official report was that Fnac should be valued at between FFr2.4bn and FFr2.7bn ($477.9m), slightly higher than the original offer by Altus and Phénix.

Pernod ahead mid-year

By Alice Rawsthorn

PERNOD-Ricard, a leading force in the French drinks industry, saw net profits rise by 16 per cent to FFr588m ($104m) in the first six months of this year from FFr507m in the same period of this year.

The group warned that the rate of growth was likely to be lower in the second half, mainly due to surplus stocks of spirits in the French market. However, it was still confident of achieving an overall increase in net profits in real terms for the full financial year.

Pernod continued to fare well in the first half, when sales rose by 9.7 per cent to FFr7.79bn from FFr7.09bn and operating profits increased by 38.5 per cent to FFr858m from FFr619m.

Hogg Group hit by profits slump

SHARES in Hogg Group, the UK insurance gronp, fell 39p to 172p yesterday in response to unexpectedly low profits and confusion over the way in which the company's year-end figures were reported, writes Andrew Jack in London.

Pre-tax profits fell to £5.03m ($7.74m) in the first balf of this year, compared with £6.8m last time.

Minorco rise meets expectations

By Richard Gourlay

MINORCO, the offshore investment arm of Anglo American, South Africa's largest industrial company, increased pre-tax profits by 1.5 per cent in the year to June 30 to $257.1m, in line with market expectations.

Operating profits at the Luxembourg-quoted group, which on Tuesday announced a $1.43bn asset swap with Anglo, its largest sbareholder, fell from $63.8m to $55.8m on sales up 4 per cent at $1.73bn. The fall was offset by an increase in treasury operations and the share of earnings from investments.

Earnings per share rose from $1.22 to $1.25, before extraordinary items of $68.2m, principally from the sale by Charter Consolidated of its 38 per cent stake in Johnson Matthey, the UK metals group. At the time of the sale Minorco had a 36 per cent stake in Charter Consolidated.

The group will be paying a 57 cents dividend, a rise of 6 per cent.

The increase in sales was mainly due to the acquisition of ICI's Canadian fertiliser business by Terra, the agri-business subsidiary, but sales in gold and base metals were hit by lower commodity prices.

Minorco ended the period with net cash of $1.1bn and shareholders' funds of $2.83m.

The asset swap effectively gives Minorco control of all Anglo's non-diamond investments outside Africa.

French cigarette group improves to FFr232m

By David Buchan in Paris

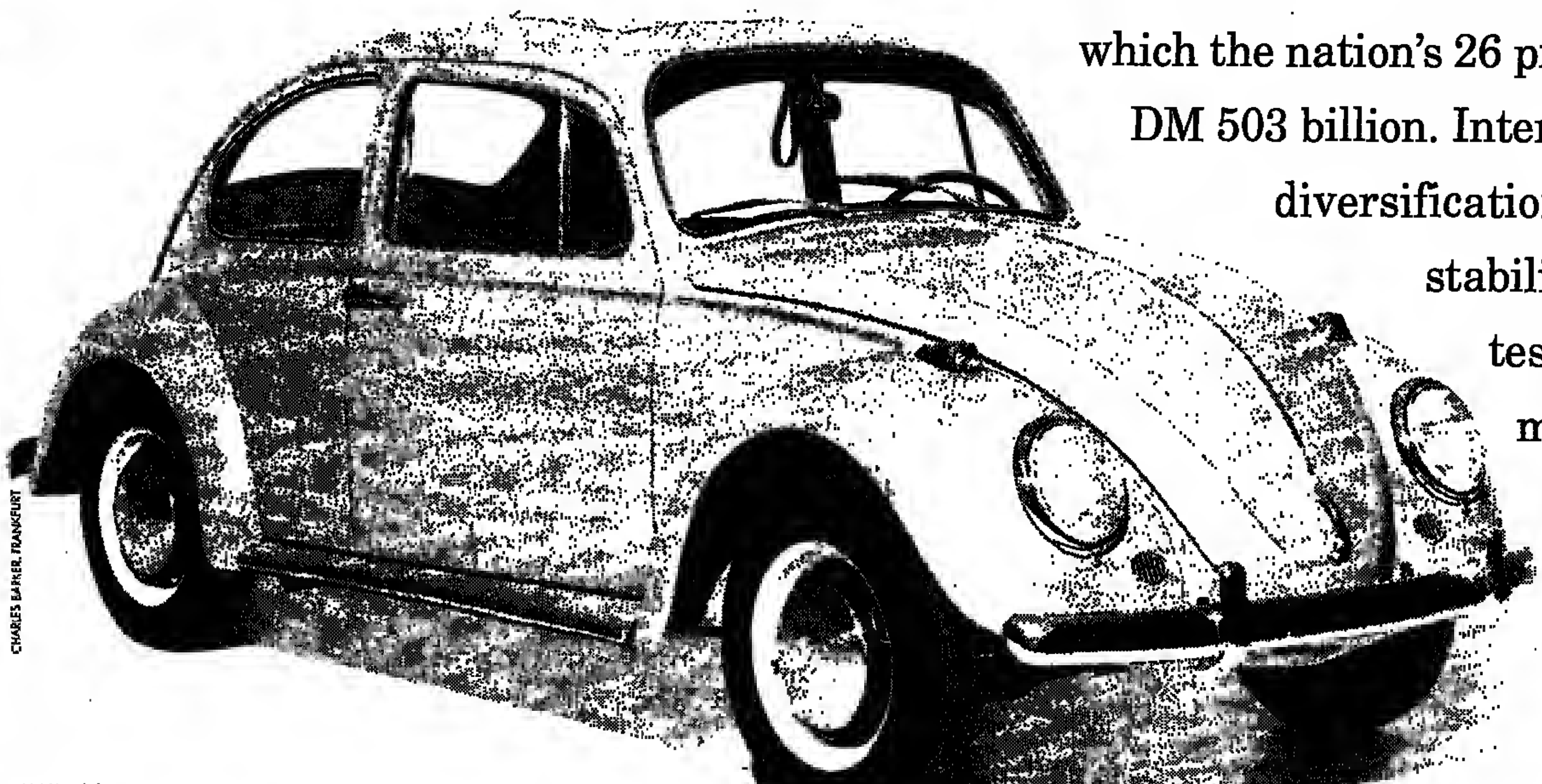
SEITA, France's monopoly maker of cigarettes which is slated for privatisation, reported profits of FFr232m ($40m) for the first half of this year, compared with FFr168m in the same period of 1992.

Turnover rose 2.2 per cent in the half, compared with the corresponding period last year.

THE GERMAN PFANDBRIEF

SOLID VALUE FROM THE GROUND UP

When this classic example of German quality workmanship first came off the assembly line in 1945, the Pfandbrief idea in Germany was already 175 years old. Today, Germany's Pfandbrief system is still going strong, accounting for about 40 % of the entire fixed-interest securities market in Germany. This means about DM 832 billion invested in outstanding Pfandbriefe at year-end 1992, of which the nation's 26 private mortgage banks accounted for DM 503 billion. International investors seeking currency diversification have to be impressed with the stability of the D-Mark. And with the time-tested endurance and safety of Germany's Pfandbrief system. What's more, investors with very low risk tolerance have to like the fact that Pfandbriefe generally provide higher yields than German Treasury bonds (Bunds). Pfandbriefe in Germany are bonds of a special kind, issued to refinance mortgages or public projects. What makes them so special are the many requirements stipulated by Germany's Mortgage Bank Act. For instance, Pfandbriefe can only be issued by specially authorized banks which are also fully liable for each issue. They are secured by mortgages or by public-sector loans. They must carry backing of separate funds with at least matching yields and maturities. And all Pfandbriefe are monitored by a trustee designated by the state. The track record for safety? No investor has ever failed to receive 100 % repayment of a Pfandbrief held to maturity. To find out why some things improve with age, have a look at Germany's Pfandbrief system.



German Pfandbriefe are officially quoted on German stock exchanges. Issuers actively maintain a well-functioning secondary market.

SOME THINGS IMPROVE WITH AGE.

GERMANY'S MORTGAGE BANKS

DEPFA-BANK, WIESBADEN
BAYERISCHE VEREINSBANK AG, MÜNCHEN
HYPO-BANK, MÜNCHEN
DEUTSCHE HYPOTHEKENBANK FRANKFURT AG, FRANKFURT
RHEINHYP, FRANKFURT
DEUTSCHE GENOSSENSCHAFTS-HYPOTHEKENBANK AG, HAMBURG
FRANKFURTER HYPOTHEKENBANK AG, FRANKFURT
DEUTSCHE CENTRALBODENKREDIT-AG, KÖLN
BAYERISCHE HANDELSBANK AG, MÜNCHEN

WESTHYP, DORTMUND
BERLIN HYP, BERLIN
SÜDDEUTSCHE BODENCREDITBANK AG, MÜNCHEN
MÜNCHENER HYPOTHEKENBANK EG, MÜNCHEN
HAMBURGHYP, HAMBURG
WÜRTTEMBERGER HYPO, STUTTGART
NÜRNBERGHYP, NÜRNBERG
HYPOTHEKENBANK IN ESSEN AG, ESSEN
DEUTSCHE HYPOTHEKENBANK (ACT.-GES.), HANNOVER

BRAUNSCHWEIG-HANNOVERSCHE HYPOTHEKENBANK AG, HANNOVER
ALLGEMEINE HYPOTHEKEN BANK AG, FRANKFURT
RHEINBODEN HYPOTHEKENBANK AG, KÖLN
LÜBECKER HYPOTHEKENBANK AG, LÜBECK
NORDHYPO BANK, HAMBURG
BFG-HYPOTHEKENBANK AG, FRANKFURT
WL-BANK, MÜNSTER
HYPOTHEKENBANK IN BERLIN AG, BERLIN

Water groups link to stay afloat

US suppliers are merging to offset rising costs, writes Frank McGurty

A CONFLUENCE of market forces is pulling the fragmented US water supply industry towards greater consolidation. In particular, the growing interest of European companies in this largely untapped American market suggests a period of accelerated change is under way.

Evidence of the trend surfaced last week when United Water Resources, a New Jersey-based group with 235,000 customers in two states, agreed to acquire GWC, with nearly 300,000 customers in 14 states.

The $200m deal would create the second-largest investor-owned water supply group in the country, with estimated annual revenues of nearly $300m.

The enlarged United may seem like small fry in an industry with billions of dollars in revenues a year. In fact, it is a leading force in what is a highly-decentralised business which had not seen a significant merger in 30 years.

There are some 60,000 supply systems in the US. About 70 per cent are owned by local government authorities, while the remainder are in private hands. Most of the second category are small, independently-owned concerns serving a handful of communities in a narrow operating area.

Large investor-owned groups have had a relatively minor presence, but have grown steadily in recent years as more independents have been swallowed up by the likes of United, GWC and American Water Works, the largest group in the sector, with 1992 revenues of nearly $660m.

Over the past decade, American has, on average added about 12 independents and some 25,000 customers a year. Last month it completed its biggest acquisition, picking up four middle-sized water systems in the mid-west from Avatar Holdings. The deal added 130,000 customers and $30m to American's annual revenues.

"Expansion has become a strategic necessity for investor-owned groups," says Mr Ward Welsh, director of corporate communications for American. "With the emphasis on conservation in recent years, water use and sales have been flat. Buying up smaller companies is ooe of the few ways to increase earnings."

While consolidation has been evident for several years, three recent developments appear to have quickened the pace.

First, compliance with stringent new federal environmental standards is forcing many water systems to spend heavily on capital projects. Many are finding it impossible to finance the required improvements, mandated by the Safe Drinking Water Act and the Clean Water Act. Government-owned water systems, as well as private ones, have been affected. Philadelphia Suburban, an investor-owned group with 245,000 customers, recently snapped up a public water system with operations within its service area after local officials were unable to pay for improvements required by the federal government.

Second, water groups are realising the benefit of geographical diversification in a business where adverse weather conditions can cause earnings to fluctuate.

American, with operations in 21 states, was able to offset losses in areas of the mid-west hit by flooding this summer with profits from systems in the east, where record high temperatures brought heavy demand for water.

Third, foreign-owned companies are eager to expand in the US. However, the complexity of the US regulatory and rate-setting system, with its overlapping federal, state and local jurisdictions, makes such forays difficult. As a consequence, alliances with US companies more familiar with the domestic operating environment have become appealing.

All three of these factors came into play in the decision by United and GWC to join forces.

For United, which had operated just two big water systems in a contiguous area of northern New Jersey and southern New York, GWC offered systems of various sizes, in areas with expanding population bases, such as Florida and New Mexico. The addition of GWC's systems not only offered higher growth potential but would help United avoid weather-related swings in earnings.

The link made sense for GWC as well. The Delaware-based group was facing high capital expenditures, projected by the company at $40m in each of the next five years. The spending in part was to pay for environmental improvements, such as sophisticated filtration systems.

United offered strengths that would help GWC over the financing hurdle. The New Jersey-based group not only had a healthy balance sheet but also enjoyed a reputation for being a well-managed company, according to Mr Paul Gioia, who follows the industry for First Albany, a New York securities house.

Mr Donald Correll, United's chairman, says the group also has expertise in bringing systems up to federal standards. He says United recently completed many of the same improvements that GWC was just beginning to address.

Finally, the deal had a foreign dimension because 82 per cent of GWC was owned by Lyonnaise des Eaux Dumez, the French group with controlling interests in several UK water companies. Lyonnaise, which bought its GWC stake about 10 years ago, would own 26 per cent of the newly-merged group.

Even though Lyonnaise was required to surrender control, Mr Patrick Babin, its deputy chief financial officer, says the agreement was "a signal of persisting interest in the US market", rather than a desire to withdraw from it. He says the group decided it would achieve the critical mass necessary to grow faster if it took on a partner.

"It is not a question of aggressiveness," says Mr Babin, "but a question of having the proper resources, both financial and technical [in order to expand]."

One field in which foreign companies have shown great interest is waste-water treatment. Anglian Water of the UK, for one, recently formed a joint venture with American to operate privatised waste-water systems in the US. Its first contract is with the city of Indianapolis.

The venture, called American Anglian Environmental Technologies, shares much of the logic that led GWC and its French parent to United. The European partner, Anglian, offers special resources (proprietary treatment processes, in the UK group's case), while the US partner, American, has an insider's knowledge of the industry. Enlightened self-interest has pulled them together.

'With the emphasis on conservation in recent years, water use and sales have been flat. Buying up smaller companies is one of the few ways to increase earnings,' says Ward Welsh of American Water Works

US INVESTOR-OWNED WATER COMPANIES (1992)

Company	Revenues ($m)	Customers (000)	Operating states
American Water Works	657.4	1,700	21
United Water Resources†	281.6	534	14
California Water	139.8	360	1
Aquarion	103.7	120	1
Southern California Water	100.5	236	1
Philadelphia Suburban	93.3	245	1
Consumers Water	89.6	226	6
E-Town Corp	89.2	184	1
SJW (San Jose Water)	89.1	204	1
IWC Resources	63.4	219	1

† Combined revenues and customers of UWR and GWC Corp, which have agreed to merge
Source: Edward D. Jones & Co, St Louis, and company reports

Kraft in talks on disposal of Birds Eye

By Frank McGurty in New York

KRAFT General Foods, the US food products company, is considering the sale of its Birds Eye frozen vegetables and fruit business.

The company, part of the Philip Morris group, said it was in negotiations with several parties over a possible disposal of the operation, which generated about $280m in sales in the year to September.

Kraft declined to identify the companies involved in the discussions, or to comment on the nature of the alternatives it was also considering.

The move by Kraft to entertain offers for Birds Eye highlights the company's recent efforts to divest its less profitable grocery lines to concentrate on products such as breakfast cereals and refrigerated foods, which deliver higher operating margins and show more growth potential.

The Birds Eye announcement comes just a month after Kraft agreed to sell its entire frozen dessert business to Unilever, the Anglo-Dutch, consumer products group, for an estimated $300m.

The Birds Eye business has a share of about 15 per cent of the $1.9bn US frozen vegetable and fruit market, according to Nielsen Market Research.

Marriott wins tax ruling

MARRIOTT Corporation, the US lodging and food services group, has received a favourable ruling from the US Internal Revenue Service that the planned spin-off of its lodging and services management operations as Marriott International will be tax-free, Reuter reports from Washington.

The company said the spin-off had been dependent on a favourable IRS ruling and if its board finds that all other conditions have been met, the distribution of one Marriott International share for each Marriott Corp share held will be made on October 8 to holders of record on September 30.

After the spin-off Marriott will change its name to Host Marriott.

Big names at little-known investment house

Alan Friedman catches up with James Baker and colleagues at the Carlyle Group

WHEN cabinet-level officials complete their stints in the US government they often find themselves recruited to corporate boards, investment banks and other private-sector entities keen to cash in on their big names and substantial contacts.

However Mr James Baker, the former US secretary of state who finished his time in the Bush administration running the White House, has chosen a more low-profile re-entry into the private sector than most of his peers.

He is spending some of his time at the family law firm of Baker and Botts, and plans to write a book about his experience in foreign policy. Rather more significantly, however, the 63-year-old Mr Baker recently became one of only seven partners in the Carlyle Group, a little-known and fast-growing Washington-based investment company that likes to call itself a merchant bank.

Each of the partners is believed to earn between $2m and $3m a year.

The unquoted Carlyle Group, named after the famous hotel in New York, was founded only six years ago with initial capital from the Mellon family, which owns 20 per cent of the business. It is not a merchant bank in the UK sense, in that its strategy tends to involve direct investment rather than corporate finance advice for third parties.

Although young, Carlyle has already acquired equity holdings in companies with nearly $5bn of annual revenues, covering activities such as defence, telecommunications, property and services.

Among its more recent deals was the purchase of the aircraft division of LTV Aerospace, a business with $2bn of annual revenues and an important contractor for the B-2 bomber. The deal was controversial in Washington because Carlyle started out as a partner with Thomson-CSF, the French government-owned defence group accused in Congress of having supplied military equipment to Iraq. Opposition to the French taking control of LTV's missiles business resulted in Carlyle changing tactics and joining forces with Northrop and Loral, two US defence contractors.

The chairman of Carlyle is Mr Frank Carlucci, the former secretary of defence in the Reagan administration and once a Princeton classmate of Mr Baker's. Another new partner at Carlyle is Mr Richard Darman, who served as head of the Office of Management and Budget (OMB) in the Bush administration. Yet another executive is Mr Alton Keel, president of a newly-formed international division and a former national security adviser to President Ronald Reagan.

Such a politically high-powered team seems odd given the group's financial approach to deal-making. But Carlyle is the only company of its kind in Washington, and connections clearly help. For example, it was Carlyle that advised Prince al-Waleed bin Talal of Saudi Arabia when he made a controversial $590m investment in Citicorp in 1991.

Mr Baker promises he will not represent any foreign governments or seek to lobby the US government. However colleagues at Carlyle are busy seeking business in places such as Saudi Arabia.

James Baker: 'good to be back in the private sector'

Mr Baker, who says it feels "good to be back in the private sector" describes Carlyle as "an extraordinarily capable collection of individuals who have a very good track record in the business of investing in companies". Looking relaxed in a blue monogrammed shirt with the initials JAB, he says he does not want to manage anything any more. "I have run five presidential campaigns. I have run the Treasury. I have run the White House twice, and I have run the State Department. I don't want to manage."

Mr David Rubenstein, a managing partner at Carlyle, says the former Reagan and Bush administration officials in the company are helpful in generating business because "these are people who clearly have high visibility and an ability to get meetings for us".

Yet even without Mr Baker and his colleagues Mr Rubenstein has been able to attract fresh capital, most notably a $100m commitment this week from Mr George Soros, the investor who has joined a new buy-out fund called Carlyle Partners. With Mr Soros's contribution included, the fund already has $250m of its $500m total committed.

A three-man Carlyle team, led by Mr Rubenstein, will be in Europe next week seeking more investment in the fund – which expects to buy into European as well as American companies – from institutions such as S. G. Warburg in London, Deutsche Bank in Frankfurt and Crédit Lyonnais in Paris.

Mr Rubenstein says he will also be trying to acquire minority shareholdings in state companies being privatised in France, Italy and Germany. He hopes to close shortly a $20m investment in IABG, a defence electronics testing business owned by the German government and located near Munich. In Italy, he is working with local partners to buy into companies being privatised in the energy sector.

Carlyle is clearly an unusual company to find in the middle of Washington. However, its ability to attract big names and fresh capital suggest it could soon become better-known in both Wall Street and European financial centres.

Mercedes set to name Alabama as plant site

By Martin Dickson in New York

MERCEDES-BENZ, the German luxury car company, is expected to announce today a decision to locate its first US car manufacturing plant, costing $300m, in the state of Alabama.

The decision ends the most heated competition in the past year between US states over the site of a greenfield manufacturing investment by a foreign company.

It is a coup for Alabama, which has a cluster of high-technology industries in the north, but has been slower than other south-eastern rivals to attract high-profile new investment.

Mercedes announced last April it planned to build a new four-wheel-drive sports utility vehicle in the US, but left open the location of the plant.

Although more than 30 states offered sites, the company came down to a short list in the south-eastern US, which apparently included North Carolina, South Carolina, Tennessee, Georgia and Alabama. North Carolina had been widely rumoured to be the front-runner.

The company, which has called a news conference for this morning in Tuscaloosa, Alabama, is expected to name a site at nearby Vance, on a 1,000-acre site set amid rolling forest and parkland.

Mercedes is already an important manufacturer of heavy trucks in the US, through its Freightliner subsidiary. This, however, will be its first car manufacturing operation on any scale outside Germany.

The plant, due to start production in 1997, will employ 1,500 people by the end of the decade and make up to 60,000 vehicles a year, with as much as 40,000 of them for export.

Mercedes is following a lead set by BMW, the rival German luxury car company, which is building a $350m plant in another south-eastern state, South Carolina, where it will manufacture a new car for the US and export markets.

Internal shake-up at US telephone group

By Karen Zagor in New York

MCI, the second-biggest US long-distance telephone company, yesterday said it was shaking up its internal organisation and eliminating the position of president and chief operating officer. This was formerly held by Mr Daniel Akerson, who quit unexpectedly in August.

MCI said it was realigning and consolidating its US operations; and setting up units to supervise international alliances and business with multinational firms.

The company is creating MCI Communications Services, which will be responsible for US operations and MCI's core long-distance business. It will be headed by Mr Gerald Taylor, formerly president of MCI Consumer Markets.

MCI International Group will be responsible for managing international alliances, selling to multinational companies, and looking for international opportunities.

Mr Bert Roberts, chairman and chief executive, said: "This reorganisation continues the trend toward greater autonomy for our business units."

MCI said it was eliminating the position of president and chief operating officer as it moved toward more autonomous operating units. Mr Akerson left MCI to head General Instrument, a manufacturer of transmission equipment for cable television.

GM forced to revise output estimates

GENERAL Motors, which has been involved in a shake-up of its supplier network over the past 18 months, said third-quarter US production would be 70,000 vehicles below earlier estimates, writes Martin Dickson. It blamed problems with fitting new parts into its models.

The company estimated in July that production of cars and trucks would total 845,000 units in the quarter. This is now expected to be 775,000.

Analysts said the shortfall could hit its third-quarter financial results, and make it harder to achieve its goal of breaking even in North America this year on an operating basis, after several years of heavy losses.

Government joins US carmakers in research

By Frank McGurty in New York

THE CLINTON administration yesterday joined the big three US carmakers in unveiling an ambitious public and private research initiative aimed at developing models three times more fuel-efficient than those currently produced.

The joint 10-year project commits the government to sharing with Detroit technology, which originated with defence and space research.

General Motors, Ford Motor and Chrysler, in turn, have agreed to co-operate with Washington, and one another, in adapting the technology to civilian uses, developing advanced manufacturing techniques, and producing prototype vehicles.

The long-term goal is to make affordable cars that will travel three times as far on a gallon of fuel than at present.

Among the technologies on offer by the government are strong, light-weight materials and electrical storage devices developed in the 1980s for the 'Star Wars' missile defence system.

On the table from the space programme are advanced fuel cells, which produce electricity by combining oxygen and gas.

An inter-agency task force will oversee the initiative, with the private-sector effort co-ordinated by the carmakers' existing research consortium, known as Uscar.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.04	21.27	23.36
0100	18.04	18.05	18.05
0130	18.04	18.05	18.05
0200	18.04	18.05	18.05
0230	18.04	18.06	18.05
0300	18.04	18.02	18.02
0330	18.04	18.02	18.02
0400	18.04	18.02	18.09
0430	18.04	17.99	17.99
0500	18.04	17.99	17.89
0530	18.05	17.09	17.96
0600	18.02	17.98	17.99
0630	20.53	17.99	17.99
0700	24.65	17.99	17.96
0730	26.34	17.99	17.99
0800	27.44	21.44	23.52
0830	23.18	21.44	23.45
0900	28.19	21.44	23.41
0930	28.23	21.44	23.40
1000	28.25	21.78	23.69
1030	28.25	33.40	35.83
1100	28.29	33.40	35.82
1130	28.26	33.40	35.84
1200	28.29	21.76	23.72
1230	28.25	21.76	23.77
1300	27.54	21.78	23.78
1330	28.30	21.78	23.80
1400	25.60	21.44	23.51
1430	25.00	21.17	23.27
1500	28.80	18.18	18.10
1530	25.00	18.09	18.08
1600	25.01	18.05	18.08
1630	32.19	21.17	23.27
1700	32.19	21.44	23.52
1730	32.18	21.78	23.80
1800	32.18	21.76	23.79
1830	24.90	21.78	23.80
1900	26.05	21.76	23.77
1930	40.09	21.44	23.41
2000	40.08	24.47	28.55
2030	34.11	21.78	23.87
2100	32.36	33.15	35.45
2130	24.98	33.15	35.45
2200	24.80	33.15	35.52
2230	24.65	26.38	28.47
2300	24.18	21.44	23.32
2330	29.72	18.00	18.00
2400	20.59	18.11	18.11

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm, Monday to Friday.
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1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.08	18.11	18.11
0100	18.09	18.09	18.09
0130	18.08	18.09	18.09
0200	20.74	18.09	18.09
0230	20.74	18.09	18.09
0300	18.08	18.09	18.09
0330	18.08	18.09	18.09
0400	18.07	18.09	18.09
0430	18.07	18.09	18.09
0500	18.07	18.09	18.09
0530	18.04	20.15	21.98
0600	18.05	18.07	18.07
0630	18.08	19.96	21.17
0700	24.77	28.50	21.72
0730	26.91	25.20	28.41
0800	26.12	24.71	25.94
0830	27.00	25.37	28.81
0900	27.01	28.43	29.72
0930	27.01	29.34	30.69
1000	27.00	29.44	30.81
1030	27.00	30.76	32.13
1100	37.01	30.76	32.12
1130	27.03	30.83	32.22
1200	31.41	35.27	36.68
1230	31.39	35.18	36.54
1300	31.36	34.89	36.32
1330	26.12	27.68	28.63
1400	26.10	27.56	28.80
1430	26.10	26.58	27.81
1500	26.10	26.58	77.81
1530	26.10	26.57	27.80
1600	26.11	26.07	27.30
1630	34.83	33.78	36.00
1700	38.48	33.78	35.03
1730	38.48	33.77	35.01
1800	38.44	33.78	34.98
1830	29.57	25.30	26.51
1900	29.64	24.94	28.16
1930	37.57	24.94	28.16
2000	37.57	24.95	28.16
2030	37.50	36.58	36.78
2100	37.48	36.58	36.80
2130	24.98	35.57	36.79
2200	24.85	36.57	36.78
2230	24.85	24.18	25.37
2300	24.03	23.56	24.78
2330	21.68	22.07	23.29
2400	20.81	20.85	21.87

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm, Monday to Friday.
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Regulator warns on US banks' loan margins

By John Gapper in Washington

US BANKS are allowing loan margins to fall and loosening conditions for borrowers to obtain credit, in spite of their claims to have learned lessons from past bad debt problems, a leading US bank regulator has warned.

Mr William McDonough, the newly-appointed president of the New York Federal Reserve, said that "if some anecdotes are true, it seems some managers are forgetting the lessons of the past awfully soon".

Mr McDonough, who addressed a private meeting in Washington organised by the G30 group of financial institutions this week, said afterwards that recent data received by the New York Fed showed that banks were relaxing controls.

Mr McDonough said that margins on unsyndicated loans wera falling in the New York area, and in the past two weeks the Bank had seen evidence that credit standards were being reduced as a result of competition to extend loans.

Mr McDonough, a commercial banker who recently took over as president of the New York Fed from Mr Gerald Corrigan, said the recent narrowing of spreads on loans was "the first indication that wisdom is being fluttered away".

However, a senior US banker said at a separate briefing that he thought the risk management of banks had improved. Mr Tom Labrecque, chairman of Chase Manhattan, said readiness to make loans meant there was no "credit crunch".

Mr Labrecque said Chase had observed some banks competing aggressively for loans, but he did not believe most were doing so. While some banks "might have dropped a few loan covenants, I would not depict that as rampant change".

Mr Labrecque also said he believed that the potential risk to financial systems from the rapid growth in the $4,500bn market in over-the-counter derivative financial products could be exaggerated, and most banks had strict controls.

Global overcapacity adds to Mazda's woes

Japanese carmaker is pinning its hopes on tie-ups and new models, says Michiyo Nakamoto

YESTERDAY'S drastic results downgrade by Mazda reflects the severity of the business environment facing Japan's third-largest carmaker.

Mazda's 60 per cent export ratio makes the company particularly vulnerable to this year's rapid appreciation of the yen and the sharp downturn in Europe, notably in Germany where Mazda is the top-selling Japanese car.

In tha US, Mazda still exports about 70 per cent of the cars it sells.

In Europe, plans for manufacture have been shelved in spite of mounting pressure for a reduction in Japanese imports. Earlier this year Mazda was forced to abandon a tie-up with large shareholder Ford that would have given it a manufacturing base in the European Community.

Mazda is also losing ground in its domestic market where, in the first six months of thia year, it posted the largest decline in output among Japan's 11 vehicle manufacturers. Output fell 18.6 per cent, compared with an industry average of 7.2 per cent.

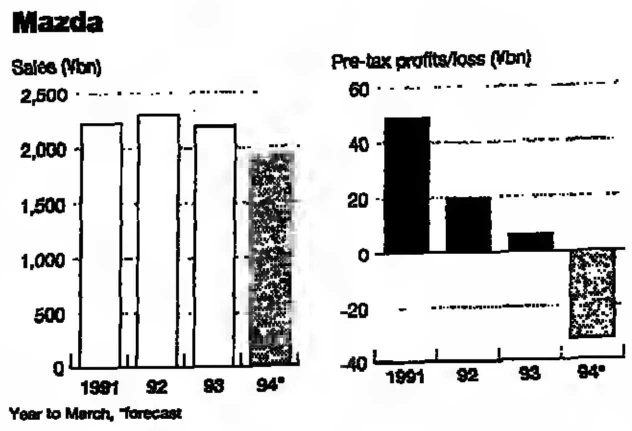
The company blames the decline in part on a reduction of pick-up truck manufacture, due to its decision to buy pick-ups from Ford starting this summer. But officials admit that a lack of new models has not helped.

The forecast pre-tax loss of Y32bn ($301.9m) for the year ending next March will be Mazda's first loss in 23 years. Some analysts say that Mazda over-extended itself in the domestic market by launching five dealership channels and a strategy to increase market share to 10 per cent.

The company is addressing these problems in part with a new programme to pursue quality rather than quantity in production, through cost-cutting and plans to strengthen its domestic sales force.

Mr Yoshihiro Wada, president, sees the company's woes as part of an industry-wide trend.

"There is overcapacity in the world auto industry," he says. "New car demand is not going to increase much in developed countries which are mature markets."



Each carmaker must deal with this overcapacity by adjusting production to levels more appropriate to slow growth. But Mr Wada is loath to reverse completely Mazda's recent expansion programme.

It does not help that Mazda has a brand-new factory in Japan which is not running at capacity.

"Mazda is too big to become a niche player," Mr Wada says. "It needs a range of models as core mass-market products, and other specialist cars in addition."

Mr Wada is looking to tie-ups with othar carmakers as a way to keep a full product range and still survive in markets where he fears future growth could be less than 1 per cent.

"We need to make a range of products because dealers want a number of models to offer their customers, even though they may not be in large volumes," he explains.

Mazda is buying diesel engines from Isuzu and negotiating with Nissan to cross-supply each other with commercial vehicles. The same strategy could be applied on a global level, where the needs of regional markets differ significantly, says Mr Wada.

He is optimistic that such co-operation "in which each company maintains its own identity" provides a way around the overcapacity afflicting the world car industry.

But he is impatient with US demands that Japan make more efforts to open its car market to imports and that Japanese carmakers buy more US auto parts. His message is that US carmakers need to make a greater effort to develop cars that Japanese consumers want.

Given the dismal performance of Mazda in its domestic market, it is a criticism Mr Wada himself may face in the months ahead if the Japanese car market remains weak. Mazda is counting on a number of new model launches expected in the coming months to revitalise sales.

COMPANY NEWS IN BRIEF

Hitachi to invest Y5bn in US plant

HITACHI, the electronics group, is investing Y5bn ($47.2m) to increase capacity at its US semiconductor facility by between 20 per cent and 30 per cant, writes Michiyo Nakamoto in Tokyo.

Hitachi, an important producer of semiconductors, plans to use the increased capacity at its facility in Texas to make mainly logic integrated circuits for use in computers and industrial machinery, among other areas. The move is in line with long-term plans to increase overseas manufacturing, it said.

Hitachi expects semiconductor sales to increase to Y600bn in the year ending March, from Y560bn a year earlier.

■ NEW Zealand Rail, which the government has sold for NZ$328m (US$181m) to a consortium led by Wisconsin Central Transportation of the US, reports a 14 per cent increase in operating profit to NZ$45.5m for the year ended June, writes Terry Hall in Wellington.

Sir Allan Wright, chairman, said that the company was trading "substantially ahead of budget" in its first three months of this year. This a period in which the group traditionally loses money, he said.

NZ Rail said that it had made a net profit of NZ$16.9m after one-off restructuring expenses, which included redundancy-related costs of NZ$21m. Revenue totalled NZ$488m, against NZ$495m.

■ KEPPHIL Shipyard, the Philippines shipbuilder, plans to offer 250m shares to the public next month: 100m are new shares while 150m are existing shares the company wants to divest to the public, Reuter reports from Manila. The proposed offer price is two pesos per share. Proceeds will be used for expansion and modernisation.

The company is presently owned 92.8 per cent by Keppel Philippines Holding. After the public offer, Kepphil will be 38.9 per cent publicly owned.

■ PETRONAS, Malaysia's state oil company, may bid for the Philippines state-owned Petron Corporation, Reuter reports from Kuala Lumpur. "We see a lot of synergy in what we're doing and what they're doing. We have a lot experience we can share with Petron," the company said.

Last month the Philippines government announced plans to sell 60 per cent of Petron to private investors. Of the equity to be privatised, 40 per cent was to be sold before the end of the year to a partner who would give Petron access to crude supplies and improve its technological and financial capability, the government said.

Thai electric group to float subsidiary

By Victor Mallet in Bangkok

ELECTRICITY Generating Authority of Thailand (Egat) expects to float publicly shares in a subsidiary company in the first half of next year.

Egat, a state monopoly seeking approval for a partial privatisation, is looking to fund expansion plans estimated to cost Bt887bn ($35bn) over the next decade.

As a first step, Egat has established a subsidiary called Electricity Generating (Egco). Egco will buy the 1232-megawatt, Bt20bn, combined-cycle power complex at Rayong in south-east of Bangkok. It will then launch an initial public offering to raise Bt5bn, with a further Bt15bn to be raised through foreign borrowing.

Full details have yet to be disclosed, but stockbrokers and Egat officials say Egat will probably keep about 50 per cent of Egco, with the rest sold to local and foreign investors. The plan is to list Egco on the Stock Exchange of Thailand by June 1994.

According to Egat, Egco will go on to buy the Khanom power station, under construction in Nakhon Si Thammarat in southern Thailand. Egat itself is to be listed in 1996, although some local brokers regard this target as optimistic.

The Egco privatisation has been delayed by disputes over the pricing of the company's electricity supplies and the tax liabilities relating to the transfer of Egat assets to Egco.

These problems now appear to have been resolved. Smith New Court, the stockbrokers, said Egat will indirectly guarantee the Bt15bn in foreign loans by means of a 20-year electricity purchase agreement with Egco.

(FF millions)	June 30, 1993	June 30, 1992	% Change
Revenue - Subscriptions	3,477	3,142	+ 10.7 %
- Advertising and sponsoring	267	223	+ 19.7 %
- Other goods and services	539	523	+ 3.1 %
Total revenue	4,283	3,888	+ 10.2 %
Operating income	864	866	- 0.2 %
Financial income	31	86	- 64.0 %
Non-recurring items, after tax	160	(120)	N.S.
Equity in losses of associated companies	(106)	(158)	- 32.9 %
Net income after minority interests	676	507	+ 33.3 %

INTERNATIONAL CAPITAL MARKETS

Gilts recover losses after disappointing auction

By Conner Middelmann in London and Patrick Harverson in New York

UK GILTS ended a volatile day slightly higher, recovering from a disappointing gilts auction.

The auction of £3.25bn of 6¾ per cent stock due 2004 was covered just 1.18 times – compared with expectations of a 1.5 to 1.7 ratio – and had a three basis points tail, the difference between the average and highest accepted yield.

GOVERNMENT BONDS

The low cover was put down to a lack of foreign buying in the light of sterling'a current weakness, as well as the gilt market's recent rally, which left most investors reluctant to chase prices higher.

Prices dropped nearly half a point on the auction result, but soon rebounded on heavy demand for the new stock. "We were flooded with buying inquiries," said one trader. "There was a lot of pent-up foreign demand at lower levels."

Mr Simon Briscoe, UK economist at S. G. Warburg, said the low cover was "largely a reflection of the market getting more sophisticated and more experienced in doing auctions." Moreover, he points out that four of the last eight auctions saw bid-to-cover ratios of between one and 1¼ times.

■ GERMAN government bonds recouped early weakness and firmed in the afternoon on international buying spurred by the D-Mark's strength. Moreover, futures dealers tried to push the December bund contract through its historical high at 99.24, though it peaked short of that at 99.17. Technical factors are expected to drive bunds further today.

The market's bullish mood was temporarily dented by the Bundesbank's latest securities repurchase agreements, which left repo rates unchanged at 6.70 per cent. Many traders had hoped that the rate on the one-month repo might ease as it was offered at variable rates, but it matched the 6.70 per cent rate for two-week funds, reflecting money-market tightness and the Bundesbank's reluctance to signal a resumption in easing, traders said.

While sentiment remains strong, some warn that bunds could come in for a correction when investors focus on the issue calendar for the next three months, with some DM50bn of supply in store. Bunds are also expected to remain vulnerable to any renewed flare-ups in Russia.

■ DUTCH bonds outperformed bunds, with the Dutch 10-year benchmark yielding 19 basis points less that its German counterpart, compared with 16 basis points on Tuesday.

■ FRENCH government bonds tracked bunds on the way up but ended the day slightly lower on late profit-taking after three days of gains. The notional bond future on the Matif closed at 123.76, down 0.06 point on the day.

The Bundesbank's decision to leave its repo rates unchanged at 6.70 per cent dampened hopes of a rate cut at today's Bank of France repos. But talk of near-term easing continued, with traders now focusing on Monday's repo.

■ JAPANESE government bonds slipped on profit-taking after the recent rally. The December JGB future ended at 112.73, down 0.11 points on the day.

■ US TREASURY prices were flat to lower across the maturity range in quiet trading yesterday morning as the bond market set about consolidating its recent gains.

By midday, the benchmark 30-year government bond was down $\frac{1}{16}$ at 104, yielding 5.957 per cent. At the short end of the market, the two-year note was unchanged at 100$\frac{1}{32}$, to yield 3.809 per cent.

Trading opened in subdued fashion, with no lead from overseas markets. Analysts said that investors and traders were mostly staying on the sidelines, awaiting the economic data due to be released later in the week, including August personal income and spending figures, the August leading indicators and the September purchasing managers' index.

Yesterday's economic numbers consisted solely of an upward revision to second-quarter gross domestic product growth from 1.8 per cent to 1.9 per cent, and had little impact upon sentiment.

FT FIXED INTEREST INDICES

	Sep 29	Sep 28	Sep 27	Sep 24	Sep 23	Year ago	High*	Low*
Govt.Secs (UK)	101.86	101.87	101.68	101.85	101.60	89.35	102.86	93.28
Fixed Interest	122.64	122.66	122.58	122.53	122.45	104.35	125.20	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 126.20 (1/9/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Sep 28	Sep 27	Sep 24	Sep 23	Sep 22
Gilt Edged Bargains	99.6	109.5	88.9	96.1	91.2
5-Day average	97.0	98.7	98.3	101.2	105.4

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	120.0071	-0.004	6.69	6.82	6.83
BELGIUM		8.000	03/03	110.7900	-0.410	7.37	7.25	7.15
CANADA *		7.500	12/03	104.1400	-0.475	6.92	7.02	6.82
DENMARK		8.000	05/03	108.0750	-0.075	6.69	6.79	9.64
FRANCE	BTAN	5.750	11/98	100.7506	+0.175	5.57	5.65	5.58
	OAT	8.750	10/03	105.2900	+0.030	6.03	6.11	6.14
GERMANY		6.500	07/03	103.0850	+0.010	6.07	6.12	6.24
ITALY		10.000	08/03	105.4650	+0.095	9.35†	9.64	9.85
JAPAN	No 119	4.800	06/99	107.2240	+0.075	3.30	3.44	3.71
	No 157	4.500	06/03	104.4516	-0.076	3.87	3.98	4.16
NETHERLANDS		7.000	02/03	107.7000	+0.310	5.90	5.95	6.11
SPAIN		10.500	06/03	111.6000	+0.300	9.06	9.19	9.05
UK GILTS		7.250	03/98	103-22	+1/32	6.29	6.41	6.26
		8.000	06/03	107-19	+6/32	6.91	7.05	6.84
		9.000	10/08	115-31	+13/32	7.24	7.37	7.23
US TREASURY *		5.750	08/03	103-12	-10/32	5.31	5.45	5.47
		6.250	08/23	104-08	-8/32	5.94	6.11	6.13
ECU (French Govt)		6.000	04/03	108.3300	-0.060	6.64	6.70	6.67

London closing, *denotes New York morning session. Yields: Local market standard.
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

SFA eases rules for small UK derivative funds

By Tracy Corrigan

THE SECURITIES and Futures Authority haa proposed a change to existing capital requirements which will ease the burden on small derivative fund managers, some of whom had threatened to move their business offshore.

However, the UK regulatory authority's rules will only apply until January 1 1996, when the European Community's Capital Adequacy Directive (CAD) comes into force. This could bring even higher capital requirements than exist under the original SFA rules.

Under the proposed change, the SFA will define a derivative fund manager (DFM) as an arranger who has discretionary management of funds invested in derivatives and whose income is not related to the volume of business transacted.

It will recognise DFMs as a separate class of arrangers or discretionary fund managers, because they do not hold client money or assets.

A reduced net capital requirement of £10,000 (excluding investments in the DFM's own funds) will apply, according to an SFA official.

Under the CAD, the requirement could be £96,000 or £36,000, depending on the interpretation, which has still to be clarified.

However, there are provisions which mean that any DFMs authorised under existing rules will be able to keep the same capital requirements. This could prompt a rush of DFM authorisation applications to the SFA prior to 1996.

The amount of money in futures funds and managed accounts around the world is estimated at around $20bn, according to Tass Management, a specialist tracking firm. However, the bulk of the market is in the US, with only some $2bn managed in Europe.

● Argentaria, the state-controlled Spanish bank, has reappointed Morgan Stanley to globally lead the second tranche of its big capital flotation, writes Tom Burns from Madrid.

The Argentaria 2 placement is expected in November. The $1bn Argentaria 1 issue was launched in May.

Aggressive terms for Nestlé in Canadian dollar debut

By Antonia Sharpe

THE international bond market saw a revival in new issuance yesterday as several high-quality borrowers made offerings in a variety of currencies.

Nestlé, the Swiss food group, tapped the Canadian dollar sector for the first time, raising C$300m through an issue of five-year Eurobonds. The proceeds were thought to have been swapped into US dollars.

Its popularity with retail investors enabled Nestlé to achieve an aggressive spread of five basis points over the 6½ per cent Canadian Treasury due 1998. Syndicate managers were in no doubt the bonds would soon yield less than the underlying government bond.

The Province of Alberta also tapped the Canadian dollar sector after an 18-month absence, raising $500m through an offering of 12-year Eurobonds.

The bonds were priced to yield 40 basis points over the 7¼ per cent Canadian Treasury due 2003, in line with the spread on British Columbia's recent 12-year offering and well below the spread of 51 basis points on Ontario's 12-year.

INTERNATIONAL BONDS

Lead manager ScotiaMcLeod said that, in spite of its slightly inferior rating, Alberta could command the same spread as British Columbia because it was not a frequent borrower in the Euromarket.

The spread on both Canadian dollar offerings remained intact in the afternoon, although the bonds eased slightly, in line with weakness in the underlying Canadian government bond market.

Syndicate managers said Canada's general election on October 25 was likely to cause some short-term jitters about the currency but the long-term outlook remained favourable.

Rabobank is thought to be looking to raise Canadian dollars at a spread of about 12 basis points over the underlying government bonds.

Elsewhere, GECC launched a $100m offering of three-year floating-rate notes under its series B global MTN programme. The issue is linked to the Mexican peso and is designed to hedge GECC's investments in Mexico.

Lead manager Kidder Peabody said GECC was the first foreign corporate borrower to launch such an issue.

The notes, which will be priced on or before October 15, have an indicative price of par and a coupon which is equal to the 91-day Mexican Cetes money-market rate.

Arbitrage opportunities prompted Johnson & Johnson, the babycare company rarely seen in the Eurobond market, to raise L150bn through an offering of 10-year Eurobonds.

Several borrowers have used this structure to tap the Euro-lira sector recently and some syndicate managers say that investor appetite for this type of paper is limited. Lead manager BNL said the bonds appealed to retail investors in Italy and in northern Europe. The bonds traded at 100.05 bid, within fees, in the afternoon.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Amoy Properties(a)§	250	5.50	100	undated	-	-	Jardine Fleming
Gen.Electric Capl.Corp.(b)‡	100	(b)	100R	Oct.1996	0.25R	-	Kidder Peabody Intl.
Guangzhou Investment Co.(c)§	75	(4½-5)#	100	Oct.1998	2.50	-	Morgan Stanley Intl.
All American Comms.(d)§	60	6.50#	100	Oct.2003	3.50	-	NatWest Markets
D-MARKS							
BHF Finance (Neths.)	300	6.25	100	Oct.2003	undisd.	-	BHF Bank
STERLING							
Leeds Permanent B/S	100	(e)	99.60R	Oct.1998	0.25R	-	Goldman Sachs Intl.
YEN							
IBM International Finance(f)	20bn	3.50	100.20R	Jan.1997	0.20R	-	Merrill Lynch Intl.
Mitsui & Co. USA(f)	10bn	3.90	100.67R	Jan.1999	0.51R	-	Sakura Finance Intl.
CANADIAN DOLLARS							
Province of Alberta	500	7.25	98.633R	Oct.2005	0.35R	+40 (7¼%-03)	ScotiaMcLeod
Nestlé Holdings(g)	300	6.25	99.20R	Oct.1998	0.25R	+5 (6½%-98)	UBS
ITALIAN LIRE							
Johnson & Johnson(h)	150bn	8.62	102	Oct.2003	2.00	-	Banca Nazionale de Lavoro
World Bank‡	150bn	(i)	100.725	Oct.2000	0.25	-	San Paolo, Turin
SWISS FRANCS							
Megal Finance Co.(Cay.Is.)	175	4.50	102.25	Nov.1998	-	-	Banque Paribas (Suisse)

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡With equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Conversion price: HK$10.1. Fx: 7.7366HK$/$. Callable, subject to 130% rule, on 2/11/98 at 105% declining by 1% per annum to par. b) Coupon pays 91-day cetes flat. Coupons and redemption proceeds are linked to pesos. Callable in certain circumstances. c) Fixing: £1/10/93. Callable, subject to 130% rule, from 8/10/95 at par. Callable if 90% of bonds are converted. d) Callable from 1/10/98 at 104.643% declining to par from 1/10/2001. e) Coupon pays 6-month Libor + 0.15%. f) Short 1st coupon. g) Puttable if parent reduces stake to <51%. h) Callable annually from 27/10/95 at par. i) Coupon pays 6-month Libor - 0.35%.

CBoT to offer flexible term options contracts

By Laurie Morse in Chicago

THE CHICAGO Board of Trade plans to launch a series of flexible term options on its US government bond and note futures contracts on November 12.

The options, which would allow users to tailor strike price, exercise style, and expiration dates to their investment needs, will be the first customised products offered by a futures exchange.

The Chicago Board Options Exchange pioneered the flexible options concept last year, successfully applying it to stock index options. The options are meant to compete with over-the-counter swaps markets, where customised interest rate transactions are widely used by banks and corporations.

The CBoT's active Treasury bond futures and options pits will provide liquidity for the new instruments, and its Clearinghouse will eliminate the counterparty credit risk common to OTC trades.

"We want to show OTC market users that flexible term Treasury options, combined with the benefits of the world's leading futures exchange, are a superior alternative," said Mr Patrick Arbor, CBoT chairman.

Another advantage for institutional users will be a large contract size: The new options will be traded in lots of $20m, which is 200 times the size of an ordinary bond futures contract at the CBOT. The flexible term options will be offered on US Treasury bond, and five-, 10-, and two-year Treasury note futures contracts.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:55 pm on September 29

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	31	39	9
Other Fixed Interest	1	6	9
Commercial, Industrial	241	306	873
Financial & Property	130	86	596
Oil & Gas	18	14	48
Plantations	1	0	7
Mines	32	41	63
Others	45	48	34
Totals	498	547	1,639

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

● First Dealings Sept. 27
● Last Dealings Oct. 8
● Last Declarations Dec. 30
● For settlement Jan. 10

3-month call rate indications are shown in Saturday editions.
Calls: Bardon, Chillington, Crest Nicholson, Ex-Lands, Hadleigh, Glenchewton, Govett, Shield Diagnostics, Signet, TR Tech., Wassall. Puts: Ex-Lands, Govett, Hadleigh. Put & Call: Argyll Group, Enterprise Comp.

LIFFE EQUITY OPTIONS

[illegible]

FT-SE ACTUARIES INDICES

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FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Wed Sep 29	Day's change %	Tue Sep 28	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (24)	128.65	-0.02	128.68	1.97	8.59
2	5-15 years (23)	155.37	+0.08	155.26	1.84	10.12
3	Over 15 years (9)	175.13	+0.52	174.68	1.21	9.76
4	Irredeemables (6)	205.14	-0.01	205.16	1.39	8.83
5	All stocks (62)	150.98	+0.10	150.83	1.60	8.61
	Index-Linked					
6	Up to 5 years (2)	187.05	-0.07	187.17	-0.01	4.28
7	Over 5 years (11)	184.11	-0.04	184.19	0.77	3.89
8	All stocks (13)	183.52	-0.04	183.60	0.68	3.92
9	Debs & Loans (68)	143.12	+0.17	142.77	2.16	8.52

AVERAGE GROSS REDEMPTION YIELDS

[illegible]

Central TV chief sees new rules on takeovers

By Raymond Snoddy

MR LESLIE HILL, chairman and chief executive of Central Independent Television, predicted yesterday that the ownership rules governing ITV companies would be changed to allow the nine largest companies to take each other over.

"I think we have won the commercial arguments. The ownership rules will change because they will have to change. We are not dealing here with commercial logic we are dealing with political intricacies," he said.

He was speaking as Central announced pre-tax profits of £16.4m (£15.1m) for the six months to the end of June, a rise of 9 per cent. Turnover fell 6 per cent to £149m (£158.6m).

Mr Hill has long campaigned to change the takeover rules. He believes that there should be four or five ITV companies rather than the present 15.

Mr John Major, the prime minister, is to chair a ministerial committee meeting later this autumn on the issue.

Central's earnings per share increased by 8 per cent to 37.5p (34.7p) and the interim dividend is increased by 10 per cent to 11p (10p).

The company has increased its share of the ITV advertising and sponsorship revenue from 14.83 per cent to 15.26 per cent. It is believed that Central's cumulative advertising share so far this year has been the highest in the network, the first time this has happened for such a period.

Mr Hill yesterday predicted real growth of 2-3 per cent for the ITV system, a considerable improvement on the past few years when advertising sales have been flat at best.

"There are encouraging signs but its patchy and short term," he warned.

Mr Andy Allan, who has just been promoted to managing director of the Central group, said yesterday he expected more competition for audiences to come from the BBC over the next 12 months.

Mr Hill said the company was continuing to review the progress of the new media of satellite and cable television.

"I am sure we will be in the new media. It is a question of doing the right thing, with the right partners at the right time," Mr Hill said.

Central won its franchise back with an annual bid of £2,000 but also has to pay 11 per cent of qualifying revenue to the government. The company will probably pay between £23m and £26m to the government this year, compared with a levy payment of £22m in 1991.

Hodder Headline rises 25%

By Raymond Snoddy

HODDER HEADLINE, the start-up publishing company which this summer took over Hodder & Stoughton, one of the oldest names in British publishing, announced pre-tax profits of £758,000 for the half year to June 30, an increase of 25 per cent.

The results before the costs of the transaction apply only to Headline whose authors include Cilla Black, Peter Scudamore and Diana Ross. The acquisition, valuing Hodder at £48.9m, was only completed on June 28 and does not form part of Hodder Headline's results.

Separate accounts provided for the 125-year old publishing house for the year to June showed a pre-tax loss of £6.5m on turnover on continuing activities of £56.3m. Exceptionals included a £4m provision for advances to authors that are unlikely to be recovered and £3.5m in reorganisation costs, mainly redundancy payments.

Three Hodder directors have left the board – Mr Patrick Wright, Mr Tom Biggs-Davison and Mr Michael Attenborough – and by next April when the integration is due to be completed there will be 625 staff compared with a combined total of 600 at the merger date.

The company plans to double the output of Hodder's general publishing division from 300 to 600 titles a year and childrens's titles from 100 to 200. From late-1994 onwards there are additional plans for strategic acquisitions in the areas of academic, schools and childrens' book to take total sales towards £100m a year.

Analysts are now expecting pre-tax profits of about £2m for the full year, rising to between £7m and £8m next year.

On the six month results for the old Headline business, earnings per share before transaction costs rose 14 per cent to 4.1p and the interim dividend is up 10 per cent to 1.65p.

Bookline, the book distribution business, broke even in the first half and a strong performance is expected in the second half.

Alexon slides £10m into red

By Peggy Hollinger

ALEXON Group, the struggling women's wear retailer, yesterday sought to convey an up-beat message on its future in spite of deeper than expected pre-tax losses of £10m in the first half.

Mr John Osborn, the chief executive appointed after shareholder pressure led to the departure of previous management in April, said Alexon had "broken the back of the problem".

Gearing, which had been "out in the stratosphere" even after the £16.4m rights issue in August, was now expected to be less than 50 per cent by the end of the year. Stocks were 13 per cent lower since January at £30m, and the cost reduction programme was well ahead of schedule.

Alexon expected to have cut "comfortably more" than the estimated £3m in costs this year, he said. An exceptional charge of £4.3m for rationalisation was £300,000 higher than expected due to extra office closures and redundancies.

The group increased sales by 14 per cent to £55.3m for the six months to July 31. The operating loss was £4.7m, against a profit of £3.8m. Some £2m of the swing was due to the decision to spread occupancy costs evenly across the year, instead of concentrating them in the second half.

Pre-tax losses of £10m compared with a profit of £2.1m last time.

Mr Osborn said both the Alexon and Eastex ranges had increased sales in the first half, while Dash had incurred higher losses. The group intended to convert some 20 Dash shops to the new Ann Harvey size 16-plus concept next month and a further 20 in the spring.

Mr Osborn said that due to the long lead times on the Alexon range, the new design team had not been able to make any material changes to the products. It was expected that the range would begin to see a return by the autumn of next year.

The chief executive was optimistic about his company's chances of survival. "We have a lot on our plate," said Mr Osborn, "but we are a hell of a lot healthier than we were."

The group, which paid a 3p interim dividend last year, is suspending the pay-out.

Losses per share of 37.47p compared with a profit of 3.05p last time.

● **COMMENT**

Mr Osborn is doing all the right things to encourage shareholders. The trends in stocks, gearing and working capital are all pointing the right way. Even though the losses were expected to be £8m, what's another £2m when investors are offered the hope of survival. From an investment point of view, things may be slightly different, however. It is early days yet. Estimates are being plucked out of the air and range from losses this year of £9m to £13m. For existing investors, there seems little to gain by pulling out and possibly much more benefit in holding on, although the risks remain. Potential new investors might want to wait until the company's attraction is less its new management and more its day-to-day business.

A cash cow ready for market

Norma Cohen on Gartmore in the light of its imminent flotation

Paul Myners: if we think a sector is going to outperform, we don't go into it with just a half per cent weighting

FIVE YEARS ago, Gartmore, ranked number 16 in a highly competitive and overcrowded field of investment fund managers vying for clients among pension fund trustees.

Today, it ranks fourth, attracting a disproportionate percentage of all the UK pension fund money looking for a new home and ranks alongside some of the most venerable names in the business. It manages £16bn in funds, more than three-quarters of which are British pension fund assets.

After this spectacular growth, Gartmore's owner, Banque Indosuez of France, has decided to milk its cash cow. Having bought Gartmore from the collapsed British & Commonwealth group in April 1990 for a mere £132m, the bank is expected to announce a November date for the flotation of 25 to 30 per cent of the fund manager.

Mr Philip Gibbs, financial industry analyst at stockbrokers Barclays de Zoete Wedd, estimated the flotation would value the company at £270m to £300m.

However, the flotation has caused some anxiety among pension fund consultants who have championed Gartmore's skills to their own clients. "It will probably be good for Gartmore and for Banque Indosuez. But will it be good for clients?", said one. According to another, "the big danger for a firm which has done so well is general complacency."

Gartmore's investment performance successes have helped its pension funds under management grow by 173 per cent in less than four years.

The question is whether Gartmore can hang on to what made it a success, particularly in its new guise as a public company.

Gartmore's management is well aware of consultants' anxieties. Mr David Watts, head of pension fund investments, said: "I think it's a question of keeping your decision-making structure focused. You have to keep your decision-making group small." Despite the rapid growth in funds under management, only four top executives made the decisions on how to allocate assets between sectors – an aspect of the business at which Gartmore is acknowledged to have been particularly adept.

Gartmore is unusual in that it has been able to add value both in its allocation of funds between types of investments and markets and in its selection of stock. The company has a heavy bias towards equities and expects to weight its portfolios 90 per cent in that category, somewhat above the industry average.

"We have a style which is fairly robust in asset allocation," said Mr Paul Myners, the chairman. "If we think a sector is going to outperform, we don't go into it with just a half per cent weighting. Our clients expect us to take risks. That's what they pay us for."

For example, on the day Britain withdrew from the ERM last September, Gartmore made a move out of large stocks and into smaller companies, which have outperformed the FT-A All-Share Index since then. It has also held a heavy weighting in foreign bonds, the best performing asset class all year.

Following the flotation Banque Indosuez, which Mr Myners says has never meddled in Gartmore's affairs, will have representation on its full board as well as on its remuneration and audit committees. "But they subscribe to the view that if it ain't broke, don't mend it," he said.

And it certainly ain't broke yet. In 1992, Gartmore's median rate of return in the investment pools it managed was 26.4 per cent, according to data from Combined Actuarial Performance Services. Overall, its individual funds made returns ranging from 22.6 per cent to 29.8 per cent – this in a year when the Caps' median performance was 22.4 per cent and the FT-A All-Share Index returned 20.6 per cent.

Gartmore has taken the precaution of warning its clients not to expect more of the same in 1993. "It is most unlikely we will ever again be able to outperform in every market," said Mr Myners.

Indeed, Gartmore's 1993 performance so far is just straddling the industry median – a statistic which does little to alleviate the nagging worries about the impending flotation. But after last year's excellent returns, it would take at least three years of below-average performance before clients began to defect, said BZW's Mr Gibbs.

The company's profits have grown with its assets. For the first six months of 1993, operating profits were £10.8m on revenue of £30m. Analysts at Cazenove, Gartmore's brokers, estimate that its ratio of operating profits to funds undar management stood at 0.15 per cent in June. MAM and Henderson Administration Group, both quoted, had ratios of 0.13 and 0.11.

However, securities analysts point out that Gartmore has some vulnerable points. With UK pension funds accounting for 77 per cent of its funds under management, it is heavily dependent on a single product for its profits.

Most of these are the assets of defined benefit schemes, which promise workers a percentage of final salary upon retirement. With a government advisory panel considering changes to the way UK pension funds are regulated, the fund management industry is bracing itself for the possibility that new regulations will prompt employers to switch to less complicated schemes which only promise a lump sum upon retirement.

Mr Myners acknowledges that such a shift would have implications for Gartmore. "Some employers will still continue to hire us. But if we move away from the current world, there will clearly be more competition." Gartmore is bracing itself for these changes by developing its unit and investment trust product lines and by expanding the investment products it offers for just those types of pension schemes.

Also, unlike its three main competitors, Gartmore has done little to diversify outside the UK. It has fledgling businesses in Denmark and the Netherlands, along with a Canadian operation. But only within the past two months has it applied for Securities and Exchange Commission permission to operate a fund management company in the US.

Meanwhile, Gartmore's competitors are anxious to see what kind of a company it will be when it has shareholders of its own.

It is in the arena of corporate governance that Mr Myners has probably earned his greatest public recognition. He has been a repeated critic of long-term employment contracts for corporate directors, complaining that they force shareholders to pay huge sums to get rid of incompetent management.

Mr Myners says details of his own contract are not yet complete. "Whatever we do has got to be defensible because we are in a glass house," he said.

HunterPrint dividend warning

Shares in HunterPrint fell 9½p to 37½p yesterday as the specialist printer announced that it had no distributable reserves and so would not be able to pay a dividend on its convertible preference shares in the year to September 30 1993.

However, this was not entirely unexpected because in July the group had announced that it was unlikely to return to the black at the annual stage, although the results would "reflect a marked improvement over the previous year". That news prompted a 5p fall in the shares to 45p.

The July warning followed shortly after another announcement when HunterPrint revealed that talks with a possible bidder had ended inconclusively. This had sparked a 17p decline in the share price to 50p.

In the six months to March 31, the group turned pre-tax losses of £3.85m into profits of £330,000. In December it underwent its second refinancing in two years. This included a £20m placing and offer.

NEWS DIGEST

Quiligotti shares suspended

DEALINGS IN shares of Quiligotti, which makes and installs terrazzo and other specialised industrial flooring, were suspended at 2¼p at the company's request pending the announcement of results for the year to March 30, expected today.

However the results will be postponed because the company is "at an advanced stage of discussions with a group of investors".

This, the directors said, might lead to an injection of capital into the company, which in turn would lead to a change of control and a restructuring.

Regent Inns

Regent Inns, the public house operator which came to the market in April, reported pre-tax profits up 47 per cent at £1.34m, against £913,000, in the year to July 3.

Turnover rose to £13m (£11.9m). Earnings per share came out at 10.5p (7.8p) and a final dividand of 2.25p is proposed for a final of 4.5p.

Mr Patrick Moorsom, chairman, said the results were encouraging given that the pub retail sector continued to experience tough trading.

Fleming Far Eastern

Fleming Far Eastern, the investment trust, has negotiated a loan of $90m (£58m) from a syndicate of banks.

It was arranged by Robert Fleming.

The loan, which will replace an existing $53m loan repayable on September 30, is at a fixed interest rate of 5.69 per cent a year and is repayable on September 30 1998.

Radiotrust

Radiotrust, which invests in companies involved entirely or mainly in sound broadcasting, had a net asset value of 48.6p at July 31 compared with 49.9p a year earlier and 48.3p at the trust's January year end.

Retained profits for the half yaar amounted to £10,662 (£21,416 losses) for earnings per share of 0.12p (0.25p losses).

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Adwest	fin	5.2	Nov 26	5.75	7.2	7
Alexon	int	nil	-	3	-	3
Blockleys	int	0.5	Nov 29	0.5	-	1
Capital Inds	int	2†	Dec 3	1.28*	-	3.2*
Central Ind TV	int	11	Nov 19	10	-	38
EFM Dragon Tst	fin	nil	-	0.06	nil	0.06
Hodder Headline	int	1.65†	Oct 29	1.5	-	4.5
Hogg Group	int	3.15†	Jan 10	3.15	-	3.15
Ipeco	fin	1.8	Nov 19	1.3	-	3.6
Lincat §	fin	4	Nov 5	3.3	9	5.1
Pentos	int	nil	-	0.7	-	1.5
Quayle Munro	fin	3	Oct 29	-	9‡	-
Regent Inns	fin	2.25	Nov 18	-	4.5	-
Richards Group	int	1	Nov 12	1.65	-	4.4
Starmin	int	nil	-	0.1	-	0.1
TR High Income	int	1.4X	Oct 29	1.4	-	6
Usher (Frank) §	fin	8.5	Nov 4	3	9	5

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡For 10 months. *Adjusted for scrip issue. XThird interim, making 3p to date.

Several takeover targets under consideration

Adwest seeks £22m as profits advance 35%

By Peggy Hollinger

ADWEST yesterday marked the end of three years of restructuring at the automotive components and power systems group by announcing a rights issue to fund acquisitions and a 35 per cent increase in annual pre-tax profits to £9.4m.

Mr Fred Grant, chairman, said Adwest had "done all the rationalisation that wa think needs to be done. We want to grow the business now". Since 1990 Adwest has reduced its workforce by about 29 per cent and closed six factories.

Adwest aims to raise £22.2m through a 1-for-4 rights issue at 140p. Although it was not able to announce an acquisition with the rights, Mr Grant said the group was in discussions with several possible targets in its power systems and automotive components divisions.

Adwest stressed that it had no intention of adding to its property arm, although prospects there were brighter than for some time.

The rights issue announcement was accompanied by an unexpected increase in the total dividend. Adwest had managed to maintain a covered dividend for four years, but shareholders had been patient long enough, Mr Grant said.

"I do think they are entitled to a little bit of the flavour of recovery," he said, referring to optimistic prospects for the current year. The group's shares rose 11p to close at 183p. The dividend was 3 per cent higher at 7.2p, after a reduced final of 5.2p (5.75p). Earnings rose by 45 per cent to 11p.

Results for the year to June 30 showed a 9 per cent increase in sales to £137m. The automotive division's operating profits rose 27 per cent to £3.5m on sales 8 per cent ahead at £83.1m.

Power systems rose by 20 per cent at the operating level to £3.9m on sales 9 per cent up to £51.1m.

Property, hit by a decline in margins on housebuilding, returned a slightly lower profit of £3.17m (£3.22m). This excludes the £634,000 (£1.12m) contribution from the joint venture with housebuilder, Bryant.

● **COMMENT**

Adwest has somewhat cheekily launched a rights issue to fund acquisitions which have not yet materialised, and sweetened the move with an unexpectedly increased dividend. The 5 per cent yield, which rises to 6.4 per cent on the rights price, is one of the most attractive things about Adwest. The company will now have to use the rights cash to meet demands from customers for integrated products as opposed to a variety of small components. Yet this is a company which – since new management was introduced three years ago – has, so far, managed to deliver on its promises. On forecasts of between £11.5m and £12.8m, the prospective p/e comes in at roughly 15.5 times. Compared with others in its sector, this would seem good value.

Penna shares fall 30p on warning

By Andrew Bolger

SHARES IN Penna, the USM-quoted holding company for the Sanders & Sidney outplacement consultancy, fell by 35p to 130p yesterday after the company warned of a modest pre-tax deficit for the six months to September 30 1993.

Mr John Beard, chief executive, said revenues in the second quarter had continued at the reduced levels of the first three months.

"Cost reduction programmes are in hand to reduce fixed overheads to levels more appropriate to present levels. The board remains committed to its strategy of developing its outplacement services, and marketing programmes are being sustained.

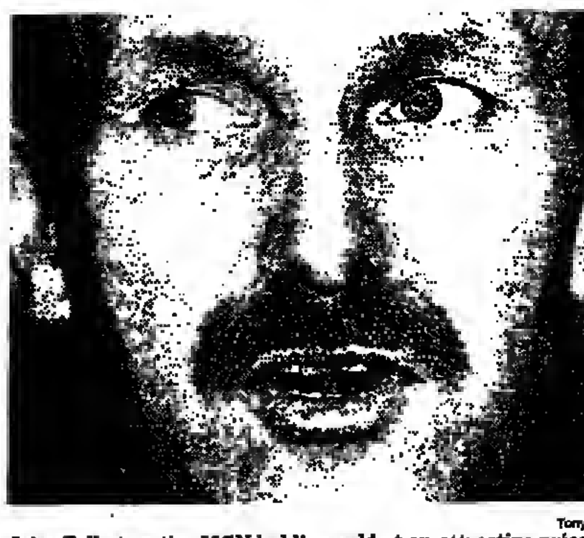
"The balance sheet of the group remains strong and the business is cash positive."

Shares in Penna have moved erratically. It was the best-performing USM stock in 1990, but the shares collapsed from 325p to 83p in 1991, following a profits warning and then the departure of Mr Stephen Rowlinson, the highly-paid chairman and chief executive.

The shares recovered from that low point to reach 279p in March, but substantially declined after the company warned at its annual meeting that first-quarter trading was slow.

MGN shares sale nets £358m

By Raymond Snoddy



Tony Andrews

John Talbot: entire MGN holding sold at an attractive price

NEARLY TWO years after Mr Robert Maxwell's body was found in the sea, Mirror Group Newspapers has become an orthodox public company with a wide range of institutional shareholders.

More than 100 separate institutions put in bids for blocks of shares under the bookbuilding exercise run by Mr John Talbot of Arthur Andersen, joint administrator to Robert Maxwell Group, the main private Maxwell vehicle.

Yesterday Mr Talbot announced that all 219.68m shares on offer – 54.8 per cent of the total – had been sold at 170p. This was a little less than some analysts had forecast but a figure that is still seen as a considerable achievement.

The MGN flotation in May 1991 was set at a price of 125p but the shares fell as low as 50p before gradually climbing back after a period of suspension. The shares closed at 177p on Tuesday and yesterday fell 7p to 170p after sale.

In a formal statement Mr Talbot said yesterday: "The strength of the institutional demand for MGN shares has permitted the sale of the entire holding in MGN at an attractive price and we have completed the international offering earlier than anticipated."

The sale will raise a gross figure of £373m with expenses expected to be about £15m.

The MGN shares were effectively controlled by four banks – National Westminster, Goldman Sachs, Midland and Lloyds – all of which held them as surety for Maxwell loans.

The banks are owed about £295m although the picture is complicated because different banks hold different parcels of shares at different prices. Three of the banks will receive their money back in full, including interest. The offer price was not high enough to cover the loans of one of the banks; believed to be Lloyds.

The banks will receive their money within a matter of days but a final settlement for unsecured creditors, including a surplus of between £50m and £60m, will take longer.

Some assets of Robert Maxwell Group have still to be sold and a number of claims are likely to be pursued by the administrator on behalf of creditors, including Maxwell pensioners.

Price competition hits margins at Acorn

By Alan Cane

ACORN COMPUTER Group, the UK-based computer manufacturer owned by Olivetti of Italy, saw turnover grow 11 per cent at the half-way stage, but margins were forced down by fierce price competition and higher component costs.

Profitability was helped, however, by a first-time contribution from Advanced RISC Machines, in which the company has a 42.86 per cent interest.

Pre-tax profits for the half year to July 4 were £305,000, a decline of 40 per cent on last time's £511,000. Revenues totalled £23.6m (£21.2m). Earnings were 0.5p (0.8p).

Mr Gary Johnson, finance director, said the decline in gross margins had been disappointing but a high point had been the performance of ARM which contributed £100,000 to profits.

This company had moved into profitability about a year earlier than expected.

ARM, co-owned by Apple Computer and VLSI Technology of the US, develops low cost microprocessors for portable computers. An ARM chip is used in Apple's heavily-promoted Newton personal digital assistant launched earlier this year.

Acorn's shares have been boosted this year by investors anxious to share in ARM's potential success; however, they fell 23p to 88p yesterday.

Non-recurring costs put Starmin loss at £1.24m

By Catherine Milton

STARMIN, the quarry products company chaired by Lord Parkinson, the former Conservative cabinet minister, announced interim pre-tax losses deepening from £479,000 to £1.24m in the six months to June 30.

Mr Owen Rout, the acting chief executive, said the company had not so far received notification of legal action by either Mr Raschid Abdullah, a non-executive director who speaks for about 30 per cent of Starmin's equity, or his brother Osman.

Mr Osman Abdullah said he had not reached a decision. His brother was not available for comment.

Turnover fell to £8.59m (£10.8m) as the company continued its programme of disposals of non-core businesses to bring down debt.

These are the first set of results since a review of accounting policies prompted the company to restate 1992 pre-tax losses from £8.06m to £11.9m in 1992. The restatement was prompted by a review of accounting policies focused on asset swaps paid for with shares in a privately-held company.

On acquisitions, Mr Rout said: "A number of talks are going on. Any option we would look at. But we must be satisfied any deal is in the best interests of shareholders."

He said he would continue as acting chief executive for the time being: "There is no point going out and looking for a new chief executive if we then conclude a deal which makes his appointment unnecessary."

Operating losses were £507,000 (£325,000), which disguised a £10,000 (£1.16m) operating profit on continuing operations, before exceptional costs, the company said. There were exceptional costs of £388,000 (£1.57m), of which £250,000 covered the reorganisation and board review while £138,000 covered abortive acquisition costs.

Interest charges rose to £352,000 (£267,000) and net debt at the half year end was £8.12m for gearing of 44.6 per cent.

Losses per share were 0.4p (0.3p) and the board did not declare a dividend. It paid 0.1p last time.

Battle set to be joined over £70m Extel disposal

By Alan Cane

A FIERCE battle for control of Extel Financial, the on-line financial information service company put up for sale last week by its owners, United Newspapers, is expected to unfold over the next few months.

Many of the world's largest information providers have already expressed interest in buying the 121-year old organisation. It is seen as an attractive acquisition by a range of companies to whom its products and services are either complementary or competitive.

United executives hope that a deal can be concluded by the end of the year. Indicative bids must be submitted within the next two weeks, a timescale which some potential bidders have said is ridiculously short.

The selling price was likely to be up to £70m, they believed. United bought the Extel group for £250m in 1987 but has since disposed of much of it. Extel Financial represents about 14 per cent of the original purchase. Extel makes profits of about £5m but last year soaked up £6m in investment in technology.

Reuters, the world's largest electronic publisher, said that it had decided against taking further part in the negotiations. It is understood that it has already investigated the company and received the confidential circular outlining terms of the sale. Analysts suggested that an attempt to buy Extel would bring Reuters into conflict with the Monopolies and Mergers Commission.

The list of companies known to be interested includes Thomson Financial, the Boston-based subsidiary of the Thomson Group; Datastream, the London-based supplier of historical securities prices owned by Primark of the US; Disclosure, which is US-based but owned by VNU, the Dutch media group; and FT Profile, the on-line information service owned by the Financial Times. FT Profile is being investigated by the MMC as part of an examination of on-line text retrieval services.

Analysts were unimpressed by talk that BT could be a bidder but did not discount the possibility that Telerate of the US, the Scandinavian company Esmerk, Hoppenstedt of Germany, and Standard and Poor's and Knight Ridder of the US could be interested.

United seems prepared to sell Extel in two packages; the profitable on-line information services group which includes the market-leading portfolio valuation service, and the bureau-based investment accounting service. The latter has seen its profitability decline in recent years, but it has developed a new software package, IAS-2, which sells for up to £400,000, which could make it attractive to a software house specialising in financial services.

Extel's value to potential buyers lies in its spread of products, many of which are market leaders in niche sectors. Datastream's interest for example, must be related to the fact that virtually all its basic data comes from Extel while Examiner, Extel's real-time financial and business news service, would be complementary to Datastream's analytical products.

Family own all the shares and will sell about half

DFS to be floated with market value of £200m

By Maggie Urry

MR GRAHAM Kirkham, an already seriously rich 48-year-old miner's son from Yorkshire, is about to join the ranks of the super-rich.

He is executive chairman of DFS Furniture, which makes and sells upholstered furniture. DFS is planning a stock market flotation before Christmas expected to value it at more than £200m. Mr Kirkham and his family own all the shares and will sell about half.

The group has no borrowings and has expanded since it was founded in 1969 entirely from cashflow. It is now the largest upholstered furniture retailer in the UK, with more than 5 per cent of a highly fragmented market. No new money is being raised by the company at the flotation. Mr Jon Massey, chief operating officer, says it does not need any.

Mr Kirkham, who says he has never borrowed a penny either corporately or personally, took a salary in the latest reported financial year of £5.72m.

He is somewhat embarrassed to be caught wearing a Rolex watch, and by a newspaper article which described a plutocratic lifestyle he says was pure fiction. But he laughs off the inaccuracies – he never tipped a Monte Carlo waiter £1,000, he says, it was £2,500.

Once DFS is public, Mr Kirkham will be on a more suitable £200,000 a year salary, initially with a three-year fixed-term contract. He will also receive dividends on his remaining shareholding. His high salary in the past was in part instead of dividends.

Mr Kirkham attributes his success to a good idea and a lot of hard work. He says his increased wealth will not affect his commitment to the business.

He left school at 16 with no O levels and went to work in a furniture shop which eventually became part of the Harris Queensway group. Frustrated at a lack of career prospects, he set up his own business under the name of Northern Upholstery in an old billiard hall near Doncaster, making the furniture upstairs and selling it downstairs.

Lydia van der Meer

Graham Kirkham: success comes from a good idea and hard work

Important to its success is the wide range of styles on offer, with a price range for a three-piece suite of £900 to £3,500. DFS has close links with its suppliers, fostered by paying them speedily, giving it exclusive styles and fabrics, and manufactures up to 20 per cent of its stock itself.

Another factor is customer service. Staff training is a priority and, unusually, the group does not employ part-time sales people. The group spends heavily on advertising to attract customers, but is careful not to open stores too close together.

Mr Kirkham says going public is a natural step in DFS's progression, allowing employees to own shares and giving the group "a wider shareholder base which is more appropriate to a business of its size". He admits to having discussed the step with his merchant bank, J Henry Schroder Wagg, for the last six years.

He believes it is essential to go public to maximise the chain's potential. DFS wants to expand the 24-store chain, which is concentrated in the north of England, the Midlands and East Anglia, to cover the whole country. This could take the group to about 80 stores. However, Mr Massey says it will continue to finance its expansion internally. Acquisitions are possible, but not the main focus of the company.

While other furniture retailers have suffered in the recession – some of them failing spectacularly – DFS has increased operating profits from £7.7m in the year to end-July 1990 to £13.6m in 1992.

Mr John Richards, retail analyst at NatWest Securities, which is broker to the issue, is forecasting an operating profit for 1993 of £18m. He says "DFS should be capable of sustaining a self-financed 15 per cent per annum average growth rate through to the late 1990s".

DFS has appointed Mr Malcolm Walker, chairman of the Iceland Frozen Foods chain, as a non-executive director. Another two will be appointed, one before the flotation. A finance director will also be signed up, taking on the role Mr Massey had occupied.

$640m US placement for Smurfit

By Tim Coone in Dublin

JEFFERSON Smurfit Group, the Dublin-based international paper and packaging company, has announced a private placement of $640m (£416m) in senior loan notes with US investors, to refinance existing debt.

In what is thought to be one of the largest placements in this sector of the US corporate securities market by a non-US group, 28 US institutions participated in the issue, led by the Prudential Insurance Company of America and the Annuity Association of America which subscribed $104m each for the senior guaranteed notes.

The notes have been issued in four tranches of 7,10,12 and 15 years with an average life of 10.1 years. $288m of the issue has been by Smurfit International, the group's main international holding company, and $352m by Smurfit Packaging Corporation, which holds most of the group's US interests.

Mr Michael Pettigrew, group secretary, said that most of the group's existing debt will be replaced by the new notes. "The rates are at an attractive level linked to US Treasury note rates. Their purpose is not to save on short-term interest payments but to strategically capitalise on long-term rates and take the debt profile out to longer maturities."

Last April, JSC/CCA, the lossmaking US associate of Jefferson Smurfit Group which operates 180 paper mills in North America, made a $500m offer of senior loan notes with a 10-year maturity to restructure its bank debts.

Simultaneously Smurfit International created a facility to purchase $200m of junior subordinated notes in JSC/CCA as required.

Jefferson Smurfit reversed out of JSC/CCA in a complex $2.6bn financial restructuring in 1989, remortgaging its US interests into a joint venture with the Morgan Stanley Leveraged Equity Fund.

Mr Pettigrew said that the new senior notes issue by SIBV would not be used to finance the $200m purchase of junior notes in JSC/CCA.

Morgan Grenfell takes on pubs

By Maggie Urry

IN WHAT might appear an unusual diversification for a merchant bank, Morgan Grenfell is to become a substantial pub landlord as a result of Scottish & Newcastle's £622m purchase of the Chef & Brewer chain from Grand Metropolitan.

Morgan is in effect acting as a warehouse for up to 748 pubs which S&N must sell to comply with the government regulations on pub ownership. S&N has six months to dispose of the pubs.

Morgan, owned by Deutsche Bank, the leading German bank, since early 1990, officially regards the move as part of its service to a client.

Nevertheless, the bank is clearly tickled by the idea of its new pub estate. Directors have searched the list of pubs but failed to find a Craven Arms. Mr John Craven, the chairman, may be disappointed not to have a pub in his name where he can pull a few pints.

The bank is also delighted that the deal demonstrates the combined group's ability to provide over £1bn of funding, with more than half coming from Deutsche internally, as well as the corporate finance skills necessary to find a way round the Tied Estate Orders. Few other British merchant banks have the balance sheet to do the same.

It meant the deal could be done without having to syndicate the long-term loan element of the funding – more than £300m – before it was announced, minimising the number of people who knew about it.

The financing of S&N's deal is complex. It involves a two-stage rights issue, totalling £416m before expenses, which Morgan underwrote. The second tranche will only be called if the deal is completed, and allowance has been made for the possibility of a Monopolies Commission reference.

Part of the loan finance Morgan and Deutsche are providing is a short-term facility to cover the second tranche, since GrandMet will want the money on completion but it will take a month to collect the second payment from shareholders.

To buy and manage the pubs, Morgan is setting up three subsidiary companies. The first – unimaginatively named Newco A – will buy 235 pubs leased to Chef and Brewer from Inntrepreneur, for £94m, paying S&N another £22m for the leasehold interests in them and another 227 pubs, making a total of 462. As they are sold, S&N and GrandMet will share the profits or losses equally. Merging the freehold and leasehold interests in the 235 pubs should make them easier to sell.

Newco B will run the pubs, with S&N providing management services for a fee.

Newco C will buy any of the other 286 pubs which S&N has failed to sell within the six months' time limit. Profits or losses on the sales of these will be borne by S&N.

Morgan believes it is facing no risk other than the credit risk of S&N and GrandMet. The pubs it has to sell are the less attractive end of the estate, and have been individually valued at a total of £165m compared with the £116m Newco A is paying for them, although they may be worth more than the valuation if sold in packages.

Morgan does not expect to make any trading profits from its move into the pub business beyond a normal banking fee.

Athena losses put Pentos in red

By Paul Taylor

PENTOS, the specialist retailer which owns the Dillons, Ryman and Athena chains, yesterday reported a first-half loss, passed its interim dividend, and warned that full year results would be influenced by exceptional losses at the Athena poster and card shops.

The group also announced that Mr Terry Maher, chairman and chief executive, would retire by the end of the year.

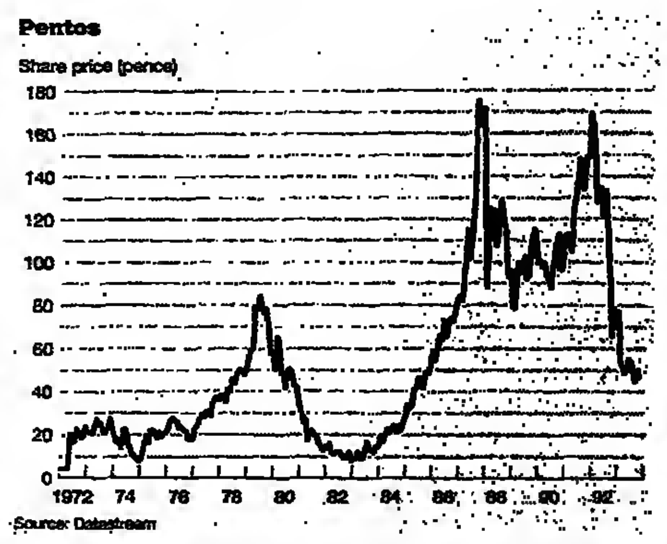
In the six months to June 30 the pre-tax loss was £400,000 compared with a £2.4m profit. Losses per share were 0.3p, against earnings of 1.3p when a 0.7p interim dividend was declared.

In the wake of the announcement the shares fell 1¼p to close at 46½p. The shares have fallen steadily over the past 24 months from a high of 170p.

Commenting on the results Mr Maher said: "Dillons and Ryman again made progress although sales were below expectations. Office furniture made a welcome return to profit after the losses of the second half.

"At Athena, however, in a still depressed market, increased losses were incurred as stock levels were reduced at the expense of margins."

Pentos



Source: Datastream

Sales rose to £101.2m, against £99.3m which included £2.9m from discontinued activities. There was a 5 per cent increase in sales of the continuing operations.

However, trading profits fell from £4.9m to £2.2m, insufficient to cover interest costs which increased by 4 per cent to £2.6m (£2.5m). Trading profits in the core specialist retailing division fell by 63 per cent to £1.4m (£3.8m), mainly reflecting problems at Athena.

Within the division, sales at the flagship Dillons bookshops increased by 9 per cent to £53.8m in a flat market, and by 4 per cent on a like-for-like basis.

Ryman, the stationers which now includes the former Wilding stores trading under the Ryman Computer Store name, increased sales by 4 per cent to £22.8m.

Sales were slightly ahead on a like-for-like basis despite the severe price cutting in the personal computer market.

Athena's sales were up 7 per cent to £19m, with UK retail sales showing an 8 per cent gain but the chain's like-for-like sales were down 3 per cent.

Mr Maher said market conditions remained difficult with margins depressed by the action taken to reduce overall stock levels, particularly at Athena, and to improve stock quality.

He added: "Significant losses will be incurred for the year as a whole, but the actions taken to reduce overheads, increase product focus and reduce funds employed will improve our longer term prospects."

Pentos's occupancy costs are now stabilising having risen over the past four years to represent 35 per cent of sales, equivalent to an additional £9m in costs.

The office furniture division, which is earmarked for sale, achieved a significant turnround to profits, compared with losses in the previous six months by cutting costs and improving manufacturing efficiencies.

However, sales were 2 per cent lower and profits were 23 per cent down at £1m, against last year's first six months.

Analysts believe Pentos' debt this year will average about £60m, little changed from a year earlier.

NEWS DIGEST

Engineering boost for Richards

A SUBSTANTIAL increase in activity in its engineering side helped Richards Group return to profit in the six months to June 30.

After losses in the previous six months pre-tax profits were £62,000, against £256,000.

Turnover increased 15 per cent to £6.38m (£5.54m) with the other division, steel support systems, showing some signs of an upturn.

Mr Peter Hodgson, chairman, said the recovery had started at the beginning of the year and was gathering momentum, although margins were still under pressure.

Earnings per share were 0.55p, against 2.29p. The interim dividend is reduced from 1.65p to 1p.

World of Leather

World of Leather, the USM-quoted furniture retailer, reported pre-tax profits of £71,000 for the six months to June 30, against £94,000 in the comparable period.

Turnover improved some 10 per cent to £14m but according to Mr Ramon Benardout, chairman, the benefits of additional sales were offset by increased overheads, including £134,000 in legal fees, and costs of providing extended interest free credit.

Earnings per share emerged at 0.9p (1.2p).

Quayle Munro

Quayle Munro Holdings, the Edinburgh-based financial services company which came to the market in June, reported pre-tax profits of £540,000 in the 10 months to June 30, against £1.15m for the previous year to August 31.

However, the company warned that as the figures related mainly to East of Scotland Industrial Investments before its merger with Quayle they did not provide a meaningful guide to future results.

Turnover were £858,000 (£1.41m). Earnings per share were 3.71p (5.88p) calculated on the shares in issue before the number was reduced in the capital reorganisation.

A final dividend of 3p is proposed for a total of 6p.

William Bedford

William Bedford, the USM-traded antique dealer and restorer, recorded a reduced deficit of £10,898 for the first half of 1993.

The improvement from the comparable loss of £21,731 came on turnover down to £651,556 (£914,179).

Mr John Bedford, chairman, said the first five months of the year proved to be "the most difficult trading period we have ever experienced".

Losses per share were 0.2p (0.5p).

Ipeco

Ipeco Holdings, a maker of specialist products for the aviation and defence industries, suffered a fall in pre-tax profits from £1.82m to £1.57m in the half year to June 26. Turnover improved from £10.1m to £10.6m.

Mr Christopher Johnson, chairman, said the results reflected the poor trading conditions in the civil aerospace industry. The effect had been ameliorated, however, by tight management controls and a more friendly exchange rate environment.

The interim dividend is held at 1.3p, payable from earnings per share of 3.8p (4.42p).

Fitch

Reduced pre-tax losses of £381,000 were announced by Fitch, the design services group, for the half year to June 30. Losses last time were £1.8m.

Mr Rodney Fitch, chairman, said that following the financial restructuring in late 1992 the management team spent the first half of the year concentrating on rebuilding the London business while further developing its worldwide market presence. The group had refocused on its core activities and continued to contain costs.

Turnover fell to £6.3m (£8.9m). Losses per share came through at 2p (31.9p).

EFM Dragon Trust

EFM Dragon Trust, the investment trust which took over Drayton Asia Trust earlier this year via a contested bid, lifted its net asset value from 12.03p to 21.36p over the year to August 31.

The 78 per cent increase largely reflected the strong performance of the dollar, which rose some 33 per cent against sterling over the period.

Sharply higher interest charges, however, prompted a decline in net profits from £345,000 to £277,000.

Earnings per share, on the increased capital, fell to 0.049p (0.11p) and the single dividend for the year is passed (0.08p) "due to the small amounts available and the costs involved" said Mr Hugh Byatt, chairman.

A 1-for-4 consolidation of shares is proposed.

Dencora

Dencora, the property and housebuilding group, swung back into the black in the six months to June 30, with a pre-tax profit of £370,000, against a deficit of £28,000.

Rental income improved to £4.6m (£4.3m) while trading turnover grew from £3.9m to £5.8m, reflecting, directors said, an "encouraging improvement in the number of houses sold, albeit at lower margins".

Interest charges were reduced to £3.05m (£3.47m). Borrowings were £57m, against £59m at December.

Basic earnings per share were 0.6p (1.2p losses). Fully diluted earnings worked through at 1.6p (0.2p).

Lincat

Lincat Group, the USM-quoted commercial catering equipment company, lifted pre-tax profits by 72 per cent, from £810,000 to £1.39m, over the 12 months to June 30.

Mr Martin Craddock, chairman, said the increase, which came on turnover ahead 21 per cent to £14.1m (£11.7m), reflected progress across the four group companies.

A proposed final dividend of 4p lifts the total to 6p (5.1p), covered 2.3 times by earnings of 14p (8.2p) per share.

Frank Usher

Frank Usher Holdings, the USM-traded womens' wear group, saw profits before tax advance 14 per cent over the 12 months to May 31.

Nevertheless, Mr Christopher Norland, chairman, described the increase from £1.07m to £1.22m, achieved on turnover of £17.6m (£15.6m) as "slightly disappointing".

Gross margin for the year as a whole fell below expectations, he added.

A recommended final dividend of 3.5p brings the total for the year to 6p (5p), payable from earnings of 11.3p (10.3p).

Capital Industries

Acquisitions enabled Capital Industries, which is involved in financial services and the manufacture of laminated paper and aluminium products, to report pre-tax profits up from £988,000 to £2.41m for the half year to the end of June.

Turnover was £34.6m, including £227,000 from acquisitions, against £12.3m, some £6.38m of which came from discontinued activities. The pre-tax figure was struck after finance charges of £386,000 (£1,000 income).

Earnings per share were 6.9p (3.6p) and the interim dividend is 2p (1.5p).

Business Technology

Business Technology Group, which sells and services office equipment, announced a pre-tax loss of £233,000 for the half year to June 30, against a deficit of £3.72m last time.

Turnover amounted to £8.76m (£11.1m). Losses per share came out at 1.15p (20p).

Arcon Intl

Increased pre-tax losses of I£1.37m (I£1.3m) were reported by Arcon International Resources, the Dublin-based mining group, for the six months ended February 28. Losses last time were I£367,000.

Although turnover improved to I£780,000 (I£348,000) the cost of sales rose from I£283,000 to I£825,000 and the loss was struck after an exceptional I£775,000 relating to the write-off of the investment in the Stone Boy project in Alaska.

Losses per share deepened to 2.46p (0.87p).

Blockleys

Blockleys, the Shropshire-based brick and pavior manufacturer, reported a 36 per cent decline in pre-tax profits, from £410,000 to £261,000, for the six months to end-June.

The outcome was struck on turnover down by £391,000 to £4.75m and was bolstered by a £46,000 surplus from a property sale and a reduced interest charge of £467,000 (£626,000).

Earnings per share fell to 0.71p (0.99p) but the interim dividend is unchanged at 0.5p.

Cambridge Group

A receiver is to be appointed to Cambridge Group, the Dublin-based finance leasing company, after its banks withdrew their support.

The shares were suspended at 1¾p yesterday morning.

John I Jacobs

John I Jacobs, the shipowner and broker, said yesterday that it was at "a very early stage of considering proposals which could lead to a substantial acquisition".

The statement followed a spurt in the company's share price from 33p to 37p.

FINANCIAL TIMES SURVEY

JAPANESE COMPANIES: Financial Review

Thursday September 30 1993

After the bubble years of the 1980s, manufacturers are facing a fourth year of falling profits, and financial institutions are sweeping up the debris from their excesses. **Robert Thomson** reports on the current debate about the future of corporate Japan

Time to set new goals

THE LATEST course in Japanese corporate therapy is Goal Setting, represented in the phonetic script of katakana, which tells a Japanese reader that the term and, perhaps, the idea are foreign. The words also tell of a lack of direction among companies famed for an ability to set and beat ambitious long-term goals.

Goals need resetting because Japanese manufacturing companies face a fourth year of falling profits, and realise that an eventual recovery will be less profitable than in the past, when the hard years of yen appreciation or recession were quickly replaced by another bout of rapid sales growth and apparently boundless expansion.

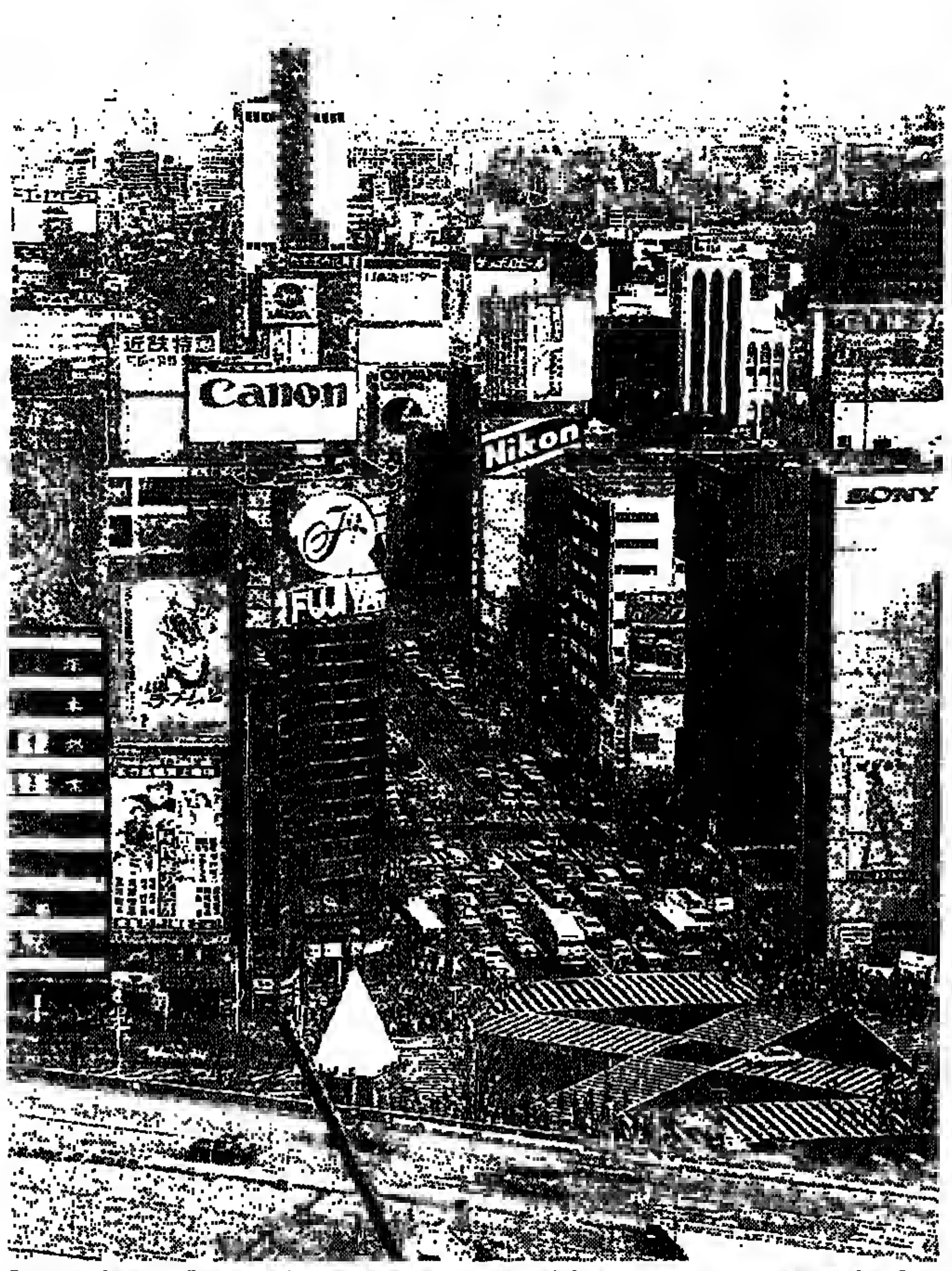
Financial institutions are still sweeping away the debris from their excesses during the late 1980s, the so-called bubble years, which left banks with non-performing loans that will be a burden until the end of the decade. Larger brokers are also under pressure, but several mid-sized houses are in serious difficulty, as was shown when Cosmo Securities was bailed out last month by a leading bank, Daiwa Bank.

The Cosmo case provides evidence that some old corporate walls are crumbling, though others remain sturdily in place, resisting recession, deregulation and financial market collapse. On the financial fringe, relationships are changing. Banks are varying interest rates for companies in the same corporate group, while larger companies are selling bank stocks, though not those of their closest institutions.

Japan's cross-shareholding system is generally holding together. Companies needing to improve profitability, but weighed down by low-yielding stocks held for the sake of maintaining a traditional relationship, are nevertheless finding themselves obliged to sell stock. Institutional investors, too, are threatening to offload their holdings in companies which refuse to increase dividend payments.

The threats come as debate gathers momentum over whether Japan is in the middle of a shift from employee sovereignty to shareholder sovereignty. Companies must be more aggressive in cutting costs, including personnel, to bolster profits, which will be distributed in ever larger amounts to investors more willing to take legal action to protect their rights, or so the theory goes.

But the swaying of the economic and social structure has inspired fears among executives and bureaucrats that Japan's era has ended, that the country will be hollowed out by the flow of manufacturing investment to east Asia, and that a corporate culture supposedly an extension of the communal spirit of the rice fields is withering.



Corporate Japan on display: emphasis is switching to investor relations — Picture: Glyn Genin

Goal-setting does not seem a bad idea at a time of such grim visions. The term was coined by Mr Shigeru Watanabe, of the Nomura Research Institute, who wants companies to pay more attention to return on equity and less to the aggressive pursuit of market share: "In the coming years, companies will have to look at return on equity if they are to be successful. They need to set new goals by looking at these numbers more closely."

The numbers are not looking good. Since 1984, return on equity of listed manufacturers has slipped from 9.4 per cent to 3.1 per cent in the year ending in March, and Mr Watanabe estimates that the rate will fall to about 2.5 per cent for the current financial year. The operating profit to sales ratio for manufacturers has fallen from 5.47 per cent at the end of 1984 to 2.88 per cent for last financial year.

Mr John Baldwin, head of research at Jardine Fleming Securities, said executives are beginning to realise that they will have to make difficult decisions about job losses and corporate direction which they have not had to face in the post-second world war period.

"Executives in the 55 to 60 years old range really have had the best of Japan. Profits and salaries have always risen, but that has come to an end and it is quite a shock. They have to make some very difficult decisions," Mr Baldwin said. "Personnel expenses rose 5.8 per cent last year even though sales fell by 2.1 per cent. This does not represent a sustainable pattern".

The longer the downturn and the weaker the recovery, the more pressure Japanese companies will face to reform their character. The yen's appreciation this year has prompted manufacturers to look for cheaper sites in east Asia, where production quality has risen markedly over the past decade. If the yen remains strong, the Bank of Japan fears "a massive substitution of overseas production for domestic production".

A sure sign that large companies are setting new goals will come if they begin to lay off workers, instead of just lowering the ceiling on the annual intake. Honda Motor is reducing its workforce by 3,000 over the next three years through natural attrition and a reduced intake of graduates. JVC, the consumer electronics company, is to reduce its workforce by 2,000 over the next year, and Matsushita Electric Industrial has transferred 2,000 employees to retail outlets.

These cutbacks indicate that Japanese manufacturers are facing the most difficult decisions. Mr Baldwin said that at the end of July, there were 424,000 fewer jobs in manufacturing, compared with a year earlier, while during 1987, when the economy was suffering from an earlier bout of yen appreciation, 190,000 manufacturing jobs were lost. The unemployment rate is still a modest 2.5 per cent, because workers have been shifted sideways into sales subsidiaries or service company affiliates.

Return on equity for listed Japanese manufacturers

Year	%
1984	9.4
1985	8.5
1986	5.7
1987	6.5
1988	8.1
1989	8.3
1990	7.7
1991	5.6
1992	3.1
1993	2.5*

* Estimate Source: Nomura Research Institute

The sideways shift is the traditional response to downturn. Staff stay on the payroll and the promise of lifetime employment is kept, but companies are unsure whether they can continue to keep their side of the bargain.

Average price to earnings ratio of Tokyo stocks

Year	Times
1984	27.41
1985	31.92
1986	49.80
1987	70.04
1988	63.75
1989	65.98
1990	52.66
1991	45.28
1992	44.82
1993*	89.00

* September Source: Yamaichi Research Institute

Manufacturers say Japanese consumers have lost their appetite for durables, as sales of cars, colour televisions and videocassette recorders are all far below peaks reached during the giddy days of the late 1980s, when companies geared up for increased production by commissioning new plants.

Average yield on Tokyo stocks

Year	%
1984	1.11
1985	0.96
1986	0.75
1987	0.51
1988	0.47
1989	0.41
1990	0.54
1991	0.66
1992	0.89
1993*	0.73

* June Source: Yamaichi Research Institute

Manufacturers are still paying for that expansion in higher depreciation charges, but they and financial institutions based their investment calculations on capital costs reckoned to be close to zero. Money was easily raised on the stock market and return on investment was not the first priority of managers inspired by the bubble era antics of their contemporaries and competitors.

Some Japanese companies thought they were addressing decline through diversification, the corporate therapy course of the mid and late 1980s. Nippon Steel ventured into computers and mushrooms, Komatsu the construction machinery producer, began distributing Norwegian pleasure cruisers, and Minebea, the bearings maker, drifted into cosmetics.

A decade later, Nippon Steel is expecting a Y15bn pre-tax loss for the year to March, and admits that it will have to review loss-making diversifications. Komatsu last month announced a restructuring programme that will increase component imports. Minebea is out of cosmetics and early this year sold a semiconductor subsidiary, NMB Semiconductor, to Nippon Steel.

If shareholder sovereignty is to be more than phrase favoured by commission-hungry brokers, executives will need to be more responsible for wayward investment decisions which have reduced profits and the returns to shareholders. Revisions to the Commercial Code in June eased filing requirements for shareholder litigants, though Japanese courts are generally wary of exercising their power to set clear precedents.

Japanese executives are reluctant to alter a course that has brought them remarkable success. There is a lingering sense that profits and partnerships will return to normal, but there is also a recognition that stimulatory packages and a series of interest rate cuts have failed to budge the economy. When executives finally emerge from the still deepening trough, they are likely to find an unfamiliar landscape.

Financial Times writers analyse the performance of companies in three sectors of the economy and examine the structural changes taking place

Engine of the world falters

THE RECENT difficulties in the Japanese economy and gloomy prospects for a near-term recovery have triggered a crisis of confidence among manufacturers.

In the electronics industry, a four-year decline in demand for audio-visual products has led Japan's large consumer electronics companies to admit that they are not fully prepared to deal with the saturation of the marketa for television sets, video cassette recorders and compact disc players, which have provided them with profits.

Car makers, faced with sluggish demand at home and slow sales in Europe, also say that their own competitiveness is threatened by a high yen and quality improvements at the big three US manufacturers, at a time when there is an over-capacity in the world car market.

Meanwhile, the high costs of manufacturing have raised the question of whether Japan can continue in its role as the world's engine of manufacturing growth.

Faced with the combined pressures of one of the worst economic slowdowns in Japan since the war, the sharp appreciation of the yen and growing protectionism in overseas markets, manufacturing companies are questioning the way in which they bave long been doing business. "In the past, it was thought that markets would always continue to grow," says an official at Matsushita, the world's largest consumer electronics maker. "That is no longer true."

This change in their business environment, from strong and rising demand to slower growth, is forcing manufacturers to review their business priorities. While demand was growing, the objective was simply to keep increasing sales volumes, which would naturally lead to higher profits.

As demand has slowed, that strategy has proved an obstacle to the maintenance of profits in a more difficult era. The large numbers of staff, particularly white-collar workers, taken on during the growth years as, manufacturers' corporate structures grew in line with rising market demand, is now a considerable source of high costs.

The wide variety of models and the short shelf life of products, which were the hallmark of companies riding high on a period of strong growth, also helped to create bloated corporate structures, which have made it difficult for companies to adjust quickly to the new environment.

In a complete reversal of their former expansionist strategies, the call among manufacturers is for the creation of a lean and mean corporate structure, capable of producing profits even when revenues are not rising. The quest for profitability,

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rather than market share, has led companies to seek greater productivity among their white-collar workers by reducing numbers working in jobs not directly linked to manufacturing.

"Japan's blue-collar productivity is very high," says Mr Kuniyoshi Sasaki, a director at the Japan Productivity Center. But white-collar productivity has, in contrast, been very low. Since it is difficult to raise the productivity on the factory floor, which is already high, Japanese companies face a strong need to improve the productivity of white-collar workers in order to raise their profits to revenues ratios, he says.

Japanese manufacturers are also trying to meet the challenge of slow growth markets by shifting their product mix to more higher value-added products.

The move of consumer electronics makers into software, such as Hollywood films, and advanced components, such as liquid crystal displays, is an example of that trend.

As they shift the focus of their own energies to high value-added products, Japanese companies are looking increasingly to tie-ups and OEM (original equipment manufacturer) deals with other companies, to supply them with those products that are less profitable for them to produce but which they still need to complement their product line-up.

Fujitsu, for example, is asking Siemens Nixdorf, the German computer company, to supply it with low-end mainframe computer technology, while it supplies Siemens with higher end machines.

In a further response to the slowdown in their markets, Japanese manufacturers are developing their global strategies, to enable them to call on resources worldwide rather than just at bome.

A growing number of car makers are therefore calling on their overseas production facilities to provide them with cheaper components, while consumer electronics makers are investing in US companies, ranging from large film studios to small venture companies, to better exploit the wealth of new market ideas emerging in that country. Matsushita, for example, not only owns MCA, the entertainment group, but has a stake in 3DO, a small company developing advanced multimedia products which has yet to make a profit.

The changes being required of Japanese manufacturers pose a significant challenge to managers, who have so far only had to concern themselves largely with manufacturing issues. "It is the business strategy of top management in Japan that is now being questioned," says Mr Sasaki. Unless top management can introduce dramatic change, companies are unlikely to achieve the real restructuring they need for a revitalisation of Japanese manufacturing, he predicts.

Michiyo Nakamoto

Caution retards growth

IN THE DIZZYING days of the late 1980s, Japanese brokers scrambled to hire employees and open new branches, believing that Tokyo stock prices were irrepressible and customers would be forming ever longer queues to buy the products on offer.

Large brokers took space in departments stores and railway complexes, and the second-tier brokers developed first-tier ambitions, investing in unnecessarily sophisticated computer systems or, in the case of Sanyo Securities, building a Tokyo trading room the size of a large warehouse.

From finding new ways to expand, Japan's brokers are now looking for creative ideas for cost cutting. For the 10 brokers in the second-tier, that may mean challenging old notions of job security by retiring middle-aged, middle managers instead of merely reducing the graduate intake.

Banks are confronting a different bubble-era legacy, a rising pile of non-performing loans to property developers or to companies which used overpriced plots of land as collateral. Banks' core profitability has soared in the past year as interest rates have fallen, creating a favourable spread, but those gains have been lost to increased provisions for non-performing loans.

The 11 leading commercial banks announced an average 70 per cent increase in loan loss reserves for the financial year ended in March, and wrote off a total of Y172.8bn, an increase of 478 per cent on a year earlier, but a only small

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portion of their combined non-performing loans of Y8,435bn.

Bank of Japan officials are concerned that the bubble era has not only left scars on institutions' balance sheets, but made them overcautious in lending, possibly retarding economic growth. In its most recent quarterly outlook, the bank referred to this concern in its understated description of "heightened risk aversion".

One difference between the banks and brokers is that the latter do not have the same portfolios of problem loans, while both are still struggling to cut costs in an environment made more competitive by financial deregulation. In July, the Industrial Bank of Japan, the Long-Term Credit Bank of Japan, and Norinchukin, the central agricultural bank, opened securities subsidiaries.

The openings followed a decade of debate about reform, which was welcomed during the late 1980s, when there seemed to be profit enough to allow banks a limited role in the securities industry and to enable brokers to establish banking subsidiaries.

But the stock market collapse, and the accompanying collapse in brokers' profits, changed the terms of debate and encouraged the finance ministry to impose tougher than predicted limits on banks' role in the securities industry. For example, it was initially proposed that banks house their new subsidiaries at head office, but by April, when the Financial System Reform Act became effective, the rules had changed.

Banks were forced to put their new subsidiaries in a separate building. Staff at the securities operation had to wear a distinctive uniform, and they were not allowed to accompany the bank's employees on calls to clients. Apart from these restrictions, the banks were excluded from dealing in stocks, though they were able to underwrite convertible and warrant bonds.

These limits have not been enough to save the more vulnerable second-tier brokers. Last month, Daiwa Bank was called on to rescue Cosmo Securities, which has reported extraordinary losses of Y68.9bn from tobashi, the shuffling of stocks around client accounts in the hope of not booking losses.

Other second-tier houses are still in difficulty. Unlike the Big Four, Nomura Securities, Daiwa Securities, Nikko Securities and Yamaichi Securities, seven of the ten brokers have been unable to turn the market's rise over the past year into a profit. For the first half ending this month, Sanyo Securities is expecting a pre-tax loss of Y5.7bn, Kankaku Securities Y5.6bn, and Dai-Ichi Securities Y3.2bn.

Mr David Threadgold, brokers' analyst at Barclays de Zoete Wedd Research (Japan), said some of the second-tier brokers, in order to make profits, need a daily turnover value of almost Y600bn on the Tokyo exchange, about 30 per cent higher than the average so far this year.

Robert Thomson

Stores hit by downturn

THE entry of Burger King, the US hamburger chain, into an already over-crowded Japanese market this month, surprised many industry analysts because the prolonged economic slump is beginning to hit fast-food outlets.

Japan's service sectors, which were virtually unaffected during the initial stages of the economic downturn, are now starting to feel the effects. Although the Japanese fast-food market saw firm sales and profits during the initial stages of the economic downturn, it is now suffering as a result of the further tightening of consumer spending.

Burger King has signed an agreement with Seibu Railways, run by Mr Yoshiaki Tsutsumi, one of the richest men in the world. Mr Masao Okada, general manager of project, expects to open 200 to 300 stores in the next few years along Seibu's railway network.

While Burger King hopes to lure customers with its healthier and bigger Whopper burger, its move comes at a time when the fast-food market is experiencing declines in purchases per customer. Ms Kaori Hasegawa, analyst at Salomon Brothers in Tokyo, says many companies are starting to limit the number of new stores to cut down costs.

Convenience stores, meanwhile, saw sales fall in June and July due to the long rainy season and cool summer weather. The sector, unlike the luxury department stores and larger super stores, has until now seen firm sales, unaffected by the downfall in consumer spending.

Services

However, sales of seasonal goods, such as soft drinks, ice-cream, and cold noodles, on which convenience stores are largely dependent, bave slumped. In July, FamilyMart, a leading convenience stora chain, experienced the first year-on-year fall in existing store sales for the first time since its listing in December 1987.

Growth in the trucking industry, which remained firm during the initial economic downturn, is also starting to decline. During the April-June quarter, volumes on scheduled trucking services rose by only 1 per cent. Compared to manufacturing companies, which are experiencing double-digit percentage falls in revenues, trucking companies are only now being forced to discount rates to win business. Ms Julia Baldini, analyst at Schrodar Securities in Tokyo, estimates that annual revenue for the industry this year, will fall around 3 to 5 per cent, compared to the 2 per cent decline last fiscal year.

The labour shortage which severely affected the industry during the late 1980s, has led companies to retain workers, causing a heavy overhead burden. While the bigger trucking companies have succeeded in controlling costs, the smaller companies are struggling. Ms Baldini believes that over the next five years the number of licensed companies will decline sharply.

Gradual deregulation of the industry is also expected to accelerate consolidation. The ministry of transport eased territorial restrictions in 1990, abolishing protection for the small local companies and allowing larger companies to expand national networks.

The recent proposal included in the new government's list of deregulations, allowing companies to use bigger trucks, is also expected to help the larger companies.

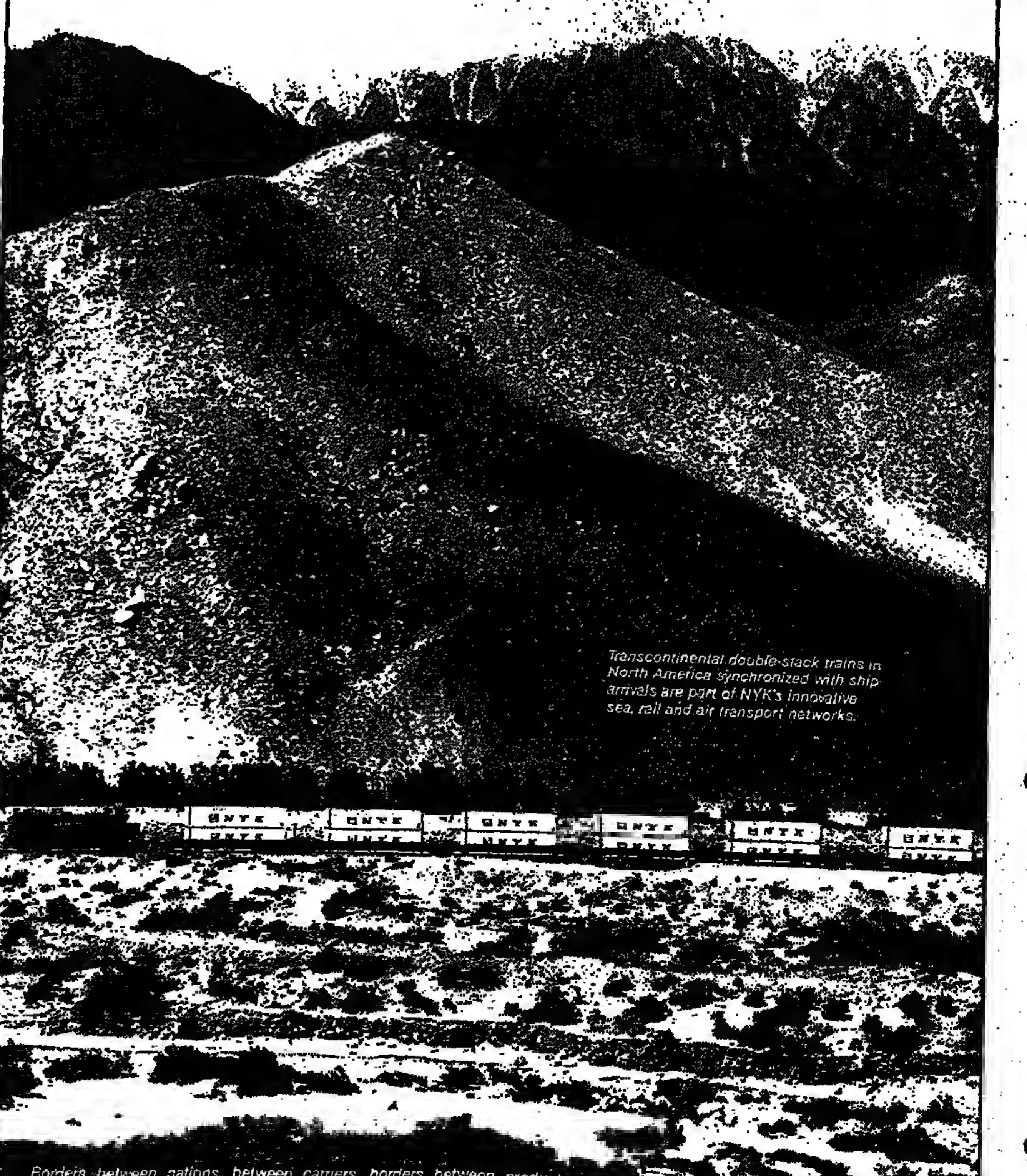
The transport industry is the most regulated of all industries, and deregulation is expected to prompt consolidation railways, trucking, shipping and warehousing. Larger transportation companies will be the biggest beneficiaries of deregulation, while smaller companies will be forced to form alliances.

The government's push for deregulation to adjust the price differences between Japan and overseas is expected to help the warehousing sector increase imports in the medium term.

The government has stipulated a review of import procedures, including construction materials, quarantine procedures and food health checks. While such changes are not expected to boost imports immediately, a further easing of procedures on a wider range of products in the future will support an increase in import levels. Pressure from consumers for cheaper food and agricultural products is also expected to increase demand for imported foods.

While import levels remain subdued, warehouses will enjoy the benefits of easing of import regulations once consumption increases.

Emiko Terazono



Emiko Terazono on the trend towards investor relations divisions

A little polish for images

CORPORATE Japan, battered by the high yen, a sluggish economy and a spate of scandals, and struggling for a new image, has turned to investor relations.

Raising funds through the stock market has become difficult due to a lack of investor confidence, while the unravelling of cross-shareholding arrangements between corporations is emphasising the need for companies to attract new investors.

Investor relations divisions are being set up in many of the leading companies, while publishers ara contemplating investor relations magazines.

Fuji Bank, a leading commercial bank, held an overseas investor relations campaign in the US and Europe last July. Such programmes are part of an effort to lift the profiles of Japanese banks, which have been battered by scandals and mounting bad loans.

Mitsubishi Research Institute started a service monitoring over-the-counter companies' investors relations activities and assisting with corporate data presentations.

Meanwhile, tougher rules for corporate disclosure and an easing of filing requirements for shareholder litigants are also expected to boost companies' awareness towards shareholders and encourage efforts to improve investor relations.

A change in the commercial law in October will allow shareholders with a 3 per cent stake, rather than the preseot 10 per cent, to look at corporate records, will increase the number of auditors from two to three, with at least one being an outside auditor, and will reduce the cost of lawsuits by shareholders to Y8,200.

The reduction of litigation costs is expected to increase the number of lawsuits, where shareholders sue directors for breaches of trust on behalf of the company. If the shareholders win, damages are forwarded to the corporation.

Earlier this month, the Japanese Supreme Court ruled that six former executives of Mitsui Mining must pay Y100m in compensation to the company for manipulating its share price. Janome Sewing Machine is being sued by a former employee for its involvement with Mr Mitsuhiro Kotani, the stock market speculator, who has been convicted for stock price manipulation.

The focus toward better investor relations has coincided with calls by industrial and financial companies for corporate integrity. The Japan Securities Dealers Association lectured presidents of publicly-owned companies on corporate disclosure, while Nomura Securities held seminars for better corporate governance.

The Keidanren, the leading business organisation, wants companies to become more like their western counterparts, providing better information and giving shareholders more rights. It believes better corporate governance is the answer to the US revisionists claims that Japanese companies are different from those in the west.

However, while on one hand companies try to impress investors with their campaigns and new investor relations departments, on the other, many still choose to keep information to themselves.

Nomura Securities and Daiwa Securities turned a deaf ear towards California's Public Employees Retirement System (Calpers), which suggested the need for independent board members to prevent scandals.

Calpers also sent letters in August questioning management policies of 17 leading companies. It received only one reply.

More than 1,900 companies held their annual shareholders' meetings on the same day last June. By holding the meetings at the same time, companies can keep sokaiya, or racketeers, from asking embarrassing or pointless questions. However, this has also kept legitimate shareholders from making comments, and shareholders' meetings have become a mere formality for both company and shareholder.

Last June 29, most of the 1,900 companies finished their meetings within an hour. These included leading construction companies implicated in illegal political donation scandals.

Leading companies have made illegal pay-offs to gangsters that threatened to disrupt annual meetings. Employees at Kirin Brewery, the country's largest beer maker, were arrested last July for making such payments over the past decade, while the president of Ito-Yokado, a leading retailer, resigned last year for its illegal payments to extortionists.

Dividends remain low, with the dividend yield for the Nikkei average around 0.8 per cent. Companies have argued that earnings should be retained for future investments and research and developments, rather than given to shareholders.

Their argument against high dividends was that shareholders already have capital gains on stocks.

Many corporations are bracing themselves for the spate of shareholder litigations next month and executives are contemplating buying liability policies. Japanese companies which have ignored investors, may finally be forced to acknowledge their existeoce.

William Dawkins discusses the effects of the new deregulation policies

Green light for red tape curbs

CORPORATE Japan has ient all its weight to the government's drive to reduce the official regulations that controi an officially estimated 50 per cent of the economy.

No sooner had the new coalition government of Mr Morihiro Hosokawa published its list of 60 proposals – later enlarged to 94 – to curb the burdens imposed by administrative red tape last month, than the Keidanren, the powerful economic federation, came out with its own further reaching counter plan.

Senior Keidanren officials say they have been supporting deregulation ever since a previous government set up a panel on the subject 12 years ago.

Yet corporate eagerness to give fresh impetus to efforts to curb red tape also shows how the recession and the yen's rise have highlighted the economic costs of red tape.

As corporate Japan's costs rise above those of its foreign, especially Asian competitors, companies are desperately eager to cut operating expenses before they have to make further cuts in their payrolls.

Whether Mr Hosokawa's deregulation drive will make any practical difference to Japan's economic problems is still an open question.

Estimates of the impact of the measures vary widely. The governmant's economic planning agency, often criticised for over-optimism, has forecast that the package, plns a Y6,150bn public spending plan, would add 1.3 percentage points to gross national product over the next 12 months.

A conservative private sector estimate, by stockbrokers Barclays de Zoete Wedd is that the government's deregulation plans could add np to one percentage point to annual growth in gross domestic product over the next decade.

The nltimate impact, of course, depends on how much political resistance the package meets. This is hard to measure. Given Mr Hosokawa's record popularity, few people are prepared to criticise deregulation in public.

Indeed the red tape cutting plan is seen in political circles as an astute gesture to pnblic frustration with some of Japan'a old rigidities. Yet behind the scenes, entrenched interests are strong.

Generally, both government and private sector economists agree that deregulation will cause some economic pain at first, hy driving loefficient companies ont of husiness, leading to lasting benefits in terms of redneed husiness costs in the next two to three years.

In the short term this could cause a rise in unemployment as has been the case with US and European Community deregulation moves in the 1980s. So, analysts do not expect the proposals to be lmplemented fast.

First, Mr Hosokawa's seven-party coalition has to overcome the vested interests of the government ministries and husinesses, such as the layers of middle men that stand between factories and customers that stand to lose power and profits from deregulation.

A sign of the challenge ahead is that the deregulation list was prepared hy none other than these territory-consclons bureaucrats, who inserted several contentlous proposals rejected several times ln the past decade.

Moreover, the 94 proposals in the plan, half of which are to he introdnced hy next March, are a very small proportion of the more than 10,000 government rules which control one of the world's most regulated developed economies.

Among the main points are: fewer controls on coustruction material lmports and mohile telephone sales, an easing of restrictions on the freight weight of large trucks, an end to minimum prodnction limits for brewers, which keep potential small producers out of the market, and fewer car roadworthiness inspections.

Others include a review of the anti-monopoiy law to close loopholes for cartels, more flexlhllity for the bond market, and fewer controls on the opening of discount food and drink stores. Foreign companies could well benefit from plans to speed up complaints to the trade and investment ombudsman.

Many of these ideas wili maet opposition, as they already have done in the past. Car makers have supported the roadworthiness certificate system, as they benefit from purchases inspired by the need for old cars to pass a test every two years, or annualiy for cars more than 13 years old. Car repairers and parts snppliers have a similar interest.

Taxi drivers, a politically vocal class in most countries, can be expected to stage stiff resistance to plans to deregulate fares.

A iook at past history indicates that putting all this into action might oot be easy. In Japan as in many other countries, vested interests can ouly be challenged if some kind of compensation ls paid.

For example, controls on opening large retaii outlets will be relaxed under the deregulation proposals, in theory paving the way for the further expansion of the newly fashlonable discount stores.

In May 1990, Japan responded to US demands to amend the Large-Scale Retaii Store Law, which covers stores of 500 sq m or more. The US idea was that large atores wonld have increased sheif space for imported prodncts and new retailers would be less obliged to stock traditionai suppliers' goods.

To win approval for the changes, which took another year to be introduced, the Ministry of International Trade and Industry pnt together a Y162.1hn subsidy package for small retailers, who were abie to use the funds for business promotions, including street fairs and pavement repairs.

Three years later, in spite of a speeding of approvals for new large stores, small shopkeepers are still able to put obstacies in the way of ambitions retailers.

Will Mr Hosokawa be able to make a deal with vested interests or will this latest attempt to deregulate go the same way as previous abortive efforts?

The consensns among economic and political observers is that, whatever the outcome of these proposals, the policy debate has been shifted, giving consumers benefits where producers' interests have long predominated.

As Mr Hosokawa himself put it in a policy address to parliament: "It is essential that we work to promote governmental deregulation and the reform of those old competition-restrictive systems and practices that are unsuited to the new era and to advance consumer interests and and further enhance economic efficiency."

TOP 20 COMPANIES BY PRE-TAX PROFIT (Y00m)

Rank	Company	1992	1991	Rank	1990	Rank
1	Toyota	3,758	5,743	1	7,338	1
2	NTT	2,488	3,528	2	4,143	2
3	Sanwa Bank	1,953	2,073	4	2,267	6
4	Nintendo	1,637	1,562	10	1,403	18
5	Tokyo Electric Power	1,583	1,468	12	1,282	21
8	Fuji Photo Film	1,512	1,689	6	1,602	15
7	Mitsubishi Heavy Industry	1,407	1,554	11	1,528	16
8	Shimizu Construction	1,326	1,244	17	1,157	24
9	Mitsubishi Bank	1,306	1,688	7	1,840	10
10	Kansai Electric Power	1,235	1,415	14	1,097	28
11	Sakura Bank	1,110	1,620	9	1,703	12
12	DKB	1,056	1,452	13	1,909	9
13	Taisei Construction	1,010	964	23	810	43
14	Ito-Yokado	975	971	22	888	36
15	Matsushita Electric	967	1,964	5	2,765	3
1a	Chubu Electric Power	945	1,194	18	573	70
17	Fuji Bank	943	1,622	8	2,059	7
1a	Tohoku Electric Power	922	944	25	785	48
18	Kajima Construction	879	1,238	1a	1,032	29
20	Daiwa House Industry	871	905	26	893	35

Source: The Wako Research Institute of Economics

The Keidanren has an influential role in corporate life

Small but powerful grouping

AT THE apex of Japanese corporate life stands the Keidanren, which is sometimes erroneously understood in the west to be the country's largest business grouping. It is, in fact, remarkably small, representing only some 900 companies – but they are 900 of the biggest, and its influence is immeasurable.

Its budget is some Y3bn a year, less than a third of that for the Tokyo Chamber of Commerce alone – that organisation is part of the Japan Chambers of Commerce and Industry, which represents 1.5m mainly small firms.

The Keidanren, or Japan federation of economic organisations, has proved adaptable over its 47-year life, but it has three main enduring functions.

■ To lobby government and the bureaucracy on behalf of big business. It has recently been pressing for measures to ease industry's plight as Japan enters recession and the high yen hurts export earnings. Some help then came in a Y6,150bn economic stimulus package unveiled by the new government this month.

■ To tell big business what government and the bureaucracy is thinking. In recent years the Keidanren has been one main conduit, along with the Ministry of International Trade and Industry, through which exporters have been prevailed on to restrain their drive for market share in particular sectors abroad, such as cars in Europe, and to open their component purchasing to foreign products, such as US semiconductors. It has also pressed the case among companies for greater environmental awareness.

■ To represent the interests of Japanese business abroad. In recent years the organisation has scaled back its often unwieldy fact-finding tours and given its overseas missions more focus.

■ To act as "link-man" when disaster strikes. The bankruptcy of a company which is listed on the first section of the Tokyo Stock Exchange is a rare and unsettling event. In order to calm investors' fears, the organisation at such times becomes a facilitator in a merger whereby a stronger group will bail out the stricken company. Jobs are thereby also preserved.

Until this summer, the Keidanren had a fifth role, as collecting agent for corporate contributions to political parties, the vast bulk of which – some Y13bn a year – went to the Liberal Democratic party. But when the LDP lost power following a general election in July, in which the receipt by politicians of tainted funds was a core issue, the federation announced that it would stop this practice.

The move marked the end of an era for the Keidanren, which was formed in 1946 in the first year of the US post-war occupation of Japan. Washington among other things wanted to dismember the *zaibatsu*, the close-knit families of companies which had oiled the military machine.

The Keidanren participated in the emergence instead of the *keiretsu*, an only modestly looser arrangement of interlocking minority shareholdings which binds loyalties within a group – comprising, say, a bank, an insurance company, a chemical manufacturer, an engineering company and others – to the present day. And, within a decade, it had also become a key political player, presiding over the founding of what Japanese call the "1955 system" of politics which broke down only with this summer's election.

In that year, the trade unions were in the ascendant, and the left and right wings of the Socialist movement came together in parliament and threatened to establish a lasting majority. The Keidanren acted as marriage broker to unite the then separate Liberal and Democratic parties into a conservative bloc which was to rule Japan for 38 years.

The corruption scandals which eventually brought down the LDP were not just a feature of the 1990s, but emerged recurrently from its early years in power. The Keidanren adopted its role as funding conduit after an outcry of public distaste during one election in which companies each endorsed a particular local LDP candidate, for whom their workforce in many cases came under pressure to vote.

But following a series of defections from the LDP's parliamentary ranks which started last year, there emerged a choice of centre-right parties. As Mr Kazuo Nukazawa, a Keidanren managing director, puts it: "We helped the LDP because it was the only party which upheld free enterprise. Now there are others."

Severing the financial tie with the LDP has helped the Keidanren, which until now specified what each company or industry association should pay the party, secure the ear of the new seven-party coalition government. Notably, Mr Gaishi Hiraiwa, its chairman, was appointed by Mr Morihiro Hosokawa, prime minister, to head an advisory panel charged with finding ways to promote deregulation and streamline the often burdensome administrative system.

The government has made a start on deregulation, producing a list of nearly 100 bureaucratic requirements or prohibitions which it says will go. But if the panel comes up with wider-ranging proposals and the internally divided coalition succeeds in getting them enacted, the private sector may have in prospect a new age of flexibility which could enhance profits. Large retailers, for example, may be freed to open stores where consumer markets warrant an outlet without having to spend years seeking ministerial sanction in the face of opposition from small shopkeepers nearby.

Deregulation has long been a Keidanren goal, but now it has a following wind. Many changes will be sternly resisted among ministry officials concerned with holding on to administrative power. But if the measures pass – and under the LDP previous similar initiatives were prone to run into the sand – the hope exists that corruption may be further curbed. Mr Nukazawa points out: "Bureaucrats said over the years: 'If you want to start any sort of business, come to me at night with a weighty fruit basket.'"

Bureaucrats and politicians in regional, as well as national government, were also frequently on the take, and a construction company wanting to develop a commercial site or win a share in a public sector contract would know that a bunch of grapes and a few well-polished apples would not be enough. Court cases involve allegations of bagfuls of cash being slid under restaurant tables.

Money which came through the Keidanren went to party central funds, rather than as backhanders to individual politicians, and was openly accounted for. None the less, the system helped preserve a culture of mutual dependence, an umbrella under which greater sums changed hands in a less transparent fashion.

Some groups, such as the commercial banks from which the LDP has outstanding loans, have said they will continue to make direct donations to the party – if only to help get these off their books. The banking sector was the biggest declared donor to the party, providing some Y2bn a year.

But however modest the amounts, corporate profitability will not be hurt by the fact that Mitsubishi Corporation, the trading house, need no longer feel obliged to make annual political contributions of Y62.4m; also Nippon Steel, Y75m; and Nippon Life Insurance, Y60.8m. In the third year of economic downturn, Japanese companies can ensure the money is better spent.

Gordon Cramb

UK prime minister John Major meets Takeshi Nagano, chairman of the Federation of Employers' Associations, and Minoru Murofushi, vice-president of the Foreign Trade Council, during a visit to Tokyo this month

Profile: GAISHI HIRAIWA

Veteran of the iron triangle

JAPAN'S new generation of leaders has, ironically, turned to a member of the old guard for advice on how to get out of the present economic fix.

Mr Gaishi Hiraiwa, 78, the man chosen last month by Mr Morihiro Hosokawa, the new prime minister, to prepare a report by the end of the year on how to restructure the economy, is a typical product of the establishment on which the old conservative-run order was based.

He is also an example of how the reformist government needs the establishment's help to function at all.

The government's package of deregulation measures, covering 94 sectors from satellite broadcasting to brewing, is one step towards reducing unnecessary costs in Japan's Byzantine economic system.

Mr Hiraiwa's report, a separate project, has been asked to go even deeper.

He has been asked for ideas on how to change Japan from a society driven by companies and producers into a society that pays more attention to consumers' aspirations, the most important popular theme of the Hosokawa government.

In this, his 15-man panel drawn from the top ranks of corporate Japan aims to build on the Maekawa report. Named after a former governor of the Bank of Japan, the Maekawa report in 1986 urged that domestic consumption should be stimulated to reduce Japan's burgeoning trade surplus. Few of its proposals have been acted upon.

Mr Hiraiwa's strikingly low public profile is belied by his extensive behind-the-scenes influence as chairman of the Keidanren, the employers' federation, an organisation which forms part of the so-called iron triangle of business, bureaucrats and politicians.

A graduate of Tokyo University, the traditional breeding ground for the Japanese élite, Mr Hiraiwa started his professional career as a humble washing machine salesman, working his way up to the chairmanship of Tokyo Electric Power by 1976.

He has a gentle, professorial manner and is said to be among the most widely read members of the business establishment.

His influence on all sides of the iron triangle is said to be formidable.

Yet this member of the old guard showed his ability to move fast with the times when the Keidanren recently announced that it would stop channelling funds to the defeated Liberal Democratic Party.

The Keidanren doled out Y13bn to the LDP at the latest count, in 1991, so the decision is a heavy blow to the conservatives, made worse by the fact that other business groups are following suit.

The decision was triggered by the wave of political scandals surrounding the arrest of Shin Kanemaru, former political "godfather" of the LDP, and the ultimate collapse of the LDP government last June. But it also reflects the Keidanren's realisation that following the collapse of socialist regimes across the world, it no longer needs to pay the ruling party to guarantee the continued existence of a free market economy in Japan.

The Keidanren has clearly indicated that its old job financing the LDP will now be less important. It is therefore expected to devote more effort to being a think-tank and government adviser. Here Mr Hiraiwa will be able to draw on the federation's 200-strong research unit to make his mark on the new government's economic policies.

The job should suit him well, in that Mr Hiraiwa is known for having lobbied fiercely for the former government to deregulate the economy and to have taken a hand in the formation of the three public spending packages launched by the LDP and Mr Hosokawa's government over the past 16 months.

Mr Hosokawa, meanwhile, will be an attentive listener. The seven-party ruling coalition is divided on many things, but not on the realisation that if it fails to deliver economic revival before the next election, likely within a year, the LDP could well stage a surprise come-back.

William Dawkins

Gaishi Hiraiwa: a member of the old guard who is able to move fast.

هكذا من الأصل

Michiyo Nakamoto looks at one effect of the rise in the yen's value

Production moves overseas

IN TOKUSHIMA prefecture, on the south-western Island of Shikoku, a 42-year-old factory which assembles stereos and radio cassette players for overseas markets will cease production at the end of October.

The factory, owned by Sanritsu Electric, an affiliate of Sanyo Electric, is one of a growing number of electronics suppliers which have fallen victim to the rising value of the yen. This summer, Sanyo put in its last order to Sanritsu and told the company it would shift production outside Japan.

For Japanese manufacturers, already suffering from a downturn in domestic demand, the impact of the yen's sharp rise this year has been devastating. While people in many other countries would welcome a strong national currency, for a population that depends for over 18 per cent of real GNP on exports, a strong yen has brought more grief than joy.

According to an estimate by Wako Research Institute, a private organisation, a Y1 rise in the yen *vis-a-vis* the dollar has the effect of reducing Japan's GNP by 0.06 per cent. On that basis, the near Y20 rise of the yen this year could wipe 1.2 per cent off the value of the country's production.

The negative effects of a higher yen reach across a wide range of industrial sectors, from heavy industries such as steel and shipbuilding to services such as shipping and air transport to high technology electronics, cars and precision machinery.

Companies ranging from Matsushita, the largest consumer electronics maker in the world, to Japan Air Lines have all suffered from the loss of cost competitiveness and the decline in overseas profits resulting from a higher yen.

However, public sympathy has been directly mainly to the plight of the electronics and car industry, which are widely seen to have been the engines of Japanese economic growth in recent years.

As the fate of Sanritsn Electric indicates, the yen's rise, which has been much faster and sharper this year than companies expected, has had an immediate impact on the profitability of electronics makers and forced them to review their manufacturing plans.

JVC, the maker of audio-visual equipment, recently announced that the yen's rise was forcing it to revise its profits forecast for the year to next March. On a consolidated basis JVC expects a loss of Y31bn instead of Y800m as forecast earlier this year. Sony says that a rise of Y1 against the dollar reduces its prospective profits by Y5bn.

The pressures on the Japanese car industry are no less severe. At Y110 to the dollar, Toyota says it would hardly make any profits. If the yen rises to Y100 to the dollar, "Japanese manufacturers would not be able to exist," it warns.

The exchange rate has forced electronics companies and auto makers to consider shifting a larger proportion of their production overseas to reduce costs.

In electronics, the manufacture of products with low value-added, such as small TV sets, has already shifted to lower-cost areas such as Thailand and Malaysia. Overseas production of colour TVs by Japanese manufacturers has exceeded domestic production since 1988.

However, the yen's recent surge has meant that companies have had to expand the range and volume of overseas production. Sony plans to manufacture 8mm camcorders in Shanghai from November, though other manufacturers have opted to keep production in Japan.

At the same time, to redure costs, electronics companies are looking to increase procurement from overseas. In the compoter industry, for example, Fujitsu intends to double procurement of foreign parts by 1995.

Car companies are also trying to raise their global manufacturing efficiency. Honda is moving the entire production of its four-door Civic and Accord cars for the North American market to the US while Toyota has decided regularly to import crankshafts and cylinder blocks from its UK engine plant for use in engines that will go into cars destined for Japan and other hig markets.

Most Japanese manufacturers accept that, since the yen is so high, one of the main keys to success, if not survival, will be their ability to transfer production overseas and reduce costs by increasing foreign procurement.

Steps are being taken in that direction, but it is not an easy route for most Japanese companies.

For one thing, since Japanese companies do not, as a rule, resort to redundancies, the transfer of manufacturing overseas raises the problem of what to do with the surplus labour that will result in Japan.

Executives of manufacturing companies have been speaking out publicly on the dangers of a hollowing out of Japanese industry as a result of the yen's appreciation, reflecting the concerns that many have about their ability to ride out the crisis without resorting to western-style redundancies and plant closures.

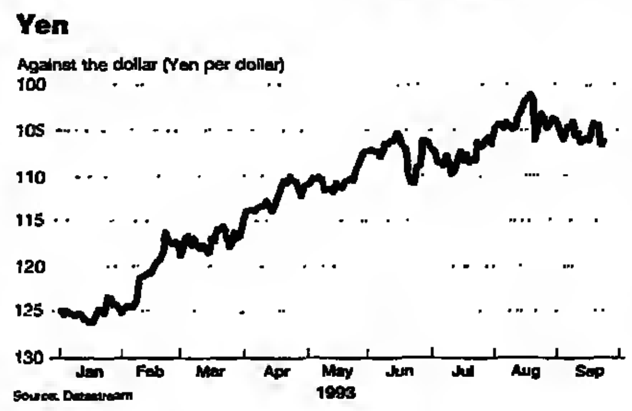
Furthermore, Japanese manufacturers have to worry about the plight of their suppliers. In many cases, especially among electronics companies and carmakers, these close ties extend to equity holdings. In the past, these ties enabled manufacturers to urge suppliers to work on gruelling productioo schedules or meet stringent cost demands.

While carmakers admit that it would reduce costs if they bought a larger volume of components from overseas, they say that would deal a serious blow to their own suppliers, who are already suffering because of slower demand in the domestic car market.

However, many Japanese companies are gradually preparing for a further transfer of manufacturing overseas by reducing their workforce through natural attrition, a reduction of new recruits, and for the more hard-pressed, voluntary early retirement schemes. More manufacturers are asking suppliers to look outside traditional corporate groupings for business.

Nevertheless, the last strong rise of the yen in the mid-1980s strengthened the competitiveness of Japanese manufacturers after they took steps to cut costs and raise profitability. It may well be that the pressures of the yen's rise will once again act as a spur to raise Japanese companies' efficiency by forcing decisions that under more moderate circumstances would have been too painful to make.

Yen



Source: Datastream

Economic uncertainty is worrying European investors, writes Michael Morgan

Healthy advance by equities

THE TOKYO stock market has put in an impressive performance this year. The Nikkei index has risen from 16,994 at the start of the year to around the 20,000 level now, although this is still far short of its record 38,915.87 seen on the last trading day of 1989.

Tokyo has also risen by almost 25 per cent in local currency terms in the FT-Actuaries index since the beginning of the year, compared with little more than a 14 per cent rise in the World Index.

For the foreign investor, however, the advance has been even more spectacular at more than 47 per cent in aterling terms and almost 50 per cent in dollar terms as a result of the strength of the yen, a performance bettered only by Finland and Spain.

However, the consensus is that the yen's strength will not continue unchecked. David Roche, global strategist at Morgan Stanley, believes it has prohahly peaked and will decline from current levels of aroumd Y105 to the dollar to Y115-120 by the end of next year.

But Tokyo's positive tone does not appear to have hrought any great rush into Japanese equities by European investors. Figures produced by the Tokyo stock exchange show net inflows hy foreigners of Y744bn by mid-September, compared with Y841bn in the whole of last year. By contrast, a net Y5,621bn was invested in 1991 after a net outflow of Y2,548bn in 1990.

However, analysts caution that these figures include all foreign investment and a substantial part of this year's total is believed to have been contributed hy US pension funds which had previously been short in Japanese equities.

The figures also include the operations of Japanese institutions abroad, further reducing the European contribution.

Political uncertainties caused by the arrival of a seven-party coalition government after July's election, ending the 38-year rule of the Liberal Democratic party, a bumpy economic outlook with no clear end in sight to the recession and the depressing knock-on effect on the corporate aector have all put a brake on fund managers' enthusiasm for Japan.

There have been false dawns on economic recovery before, saya Nicholas Kenworthy of Nomura International in London. A Y10,000bn stimulatory package at the end of August,1992, and a Y13,000bn package last March both provided strong spurs to the equity market, while some encouraging corporate news during the first quarter of this year brought hopes that recovery was on the way. But with hindsight, analysts now believe that the improvement may have had more to do with book squaring at the end of the fiscal year than indicating the likelihood of any pick-up.

Since then, the economy has been treading water, and many economists doubt whether this month's Y6,150bn package will prove sufficient to get the economy moving quickly. Analysts believe many European investors have been increasing their weightings in Japan over the past year. With bulls looking for the Nikkei to reach the 30,000 level in two year's time, few have been willing to reduce their holdings substantially.

In any event, few investors helieve that the government will allow the market to slip below the 18,000-level, since that would trigger difficulties for Japanese banks in meeting the capital adequacy ratios of the Bank for International Settlements.

Stocks likely to benefit from deregulation, in the retail and transport sectors, have proved popular with foreign investors, as have shares in the housing sector. The housing market went into cyclical downturn 18 months before the real economy and is now beginning to show signs of growth.

Patrick Thompson, of Fleming Investment Management in London, sees no sign that the economy had yet bottomed out. "Ultimately, we believe that the actions being taken hy the new government will succeed hut there will be no real recovery before the first or second quarters of next year," he says.

Fleming Investment Management was committed to Japan in the long term, he adds. "But the currency acts as a break on people making further investment in the Japanese market." In the next economic cycle, there was potential for share price rises hut Mr Thompson did not helieve that this year's gains, in sterling terms, would be repeated.

Nathan Gihhs, senior fund manager of ESN Investment Management which runs the pension fund assets of the British electricity industry says it has clearly been a very good year for UK investors in Japan, after the dismal showing of the previous three years. ESN has 18 clients and they have all heen at maximum weighting since the end of the first quarter.

He believes that in recent years, institutions had reduced their holdings, hut now he would expect any London based pension fund to have around 5 per cent of its investments in Tokyo.

He added that the types of stocks sought hy foreign investors had changed considerably in recent years. Until the early 1980s, foreigners tended to buy the hlue chip exporters like Honda, Fuji Photo and Sony. They had provided better disclosure of financial information than many Japanese corporations and were internationally known.

But during the last decade, foreigners had begun to take a lead from their Japanese counterparts, who saw the best opportunities in stocks that were very highly priced by UK standards – large steel companies like *Nippon* Steel or the private Tobu Rail.

Alison Edmunds of Postel, the UK's largest pension fund, belleves that last week's 75 basis point cut in the official discount rate to a record low 1.75 per cent might help the economy, but she believed there remained scope for further interest rate and tax cuts later in the year.

Postel had been overweight in Japan earlier in the year but had taken advantage of the market's rise to take profits. It was neutral now.

Michael Thomas, director of Martin Currie, the Edinburgh-based fund management group, notes that the short-term earnings outlook for Japanese companies was poor, as a result of the depressed state of the economy and a very strong yen.

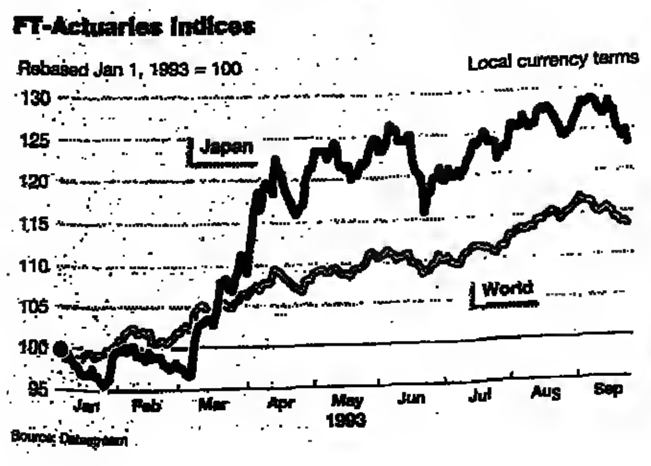
On the other hand, he believes that current low level of interests rates and a lack of incentive to enter the property market would bring cash rich Japanese financial institutions hack to the equity market, when the economy showed signs of picking up.

On a global, non-US basis, Martin Currie had reweighted its Japanese holdings in March and April. It was now below the index average of 48 per cent, but was higher than an industry average which he saw as around 30 per cent.

Peter Robertson, Far East director for M&G Investment Management, which has reduced its weightings from overweight to neutral in Japan, notes that an improven government and the possibility that there could be another election were uncertainties.

He welcomed the latest supplementary budget but said that more action to spur the economy was needed. "Although it is an area where you must have money, it is not as big a part of a south-east Asian portfolio as it used to be," he said.

FT-Actuaries Indices



Source: Datastream

Coffee prices dive despite approach of export curbs

By Richard Mooney

COFFEE PRICES plunged in London yesterday, almost on the eve of the commencement of the producers' export retention scheme that had helped to drive the market to recent 2½-year highs.

As doubts crept in about the impact and longevity of the scheme to withhold 20 per cent of output, which comes into operation tomorrow, the November futures price at the London Commodity Exchange tumbled to $1,186 a tonne, down $59 on the day and nearly $150 below the late-August high. But it was still some $270 above the level ruling when the rally took off in July.

The problem was that there had, until now, been no significant setback to the rally, explained Mr Lawrence Eagles, commodities analyst at GNI, the London trade house. And be noted that the sustained advance had taken place in very thin market volume.

Heavy technically-inspired selling in New York yesterday had revealed a lack of buying interest, he said, whicb suggested that there might be further losses to come.

"The retention plan's positive implications hava been fully sbsorbed," said Mr Eagles, "and investors are now beginning to wonder bow effective it will be and how long it will last." For his own part, he thought the producers' resolve was strong and tbat the scheme would operate "for a few years at least".

● At the London headquarters of the International Coffee Organisation delegates continued to debate how to make up financial for the withdrawal, announced at the weekend, of the US, the biggest coffee imports and main contributor to the ICO budget.

It had already been proposed that the budget be rednced by 31 per cent but yesterday Germany called for a further 5 to 7 per cent cut, said Mr Nestor Osorio, chairman of the organisation's finance committee.

It had originally been suggested that the US's $600,000 contribution could be shared among other consumers. But that was opposed by some, notably the EC.

The ICO's market stabilisation efforts were suspended in 1989 and it now operates merely as an international coffee forum and data base.

Flood of CIS aluminium 'shows no sign of abating'

By David Blackwell in Brussels

THE FLOOD of aluminium to the West from the formar Soviet Union shows no sign of abating, the European Aluminium Association heard yesterday.

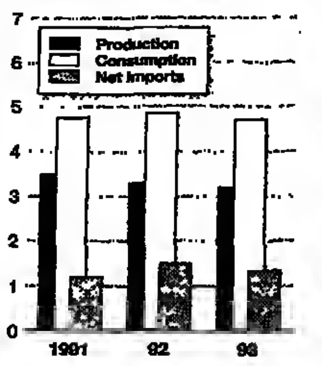
Mr Dag Flaa, the association's chairman, said that aluminium exports from the Commonwealth of Independent States into Western Europe had more than quadrupled between 1990 and 1992, and had continued to grow in the first-half of this year. "This has led to an unprecedented expected export level in 1993 of 630,000 tonnes to the European markets and 1.4m to 1.5m tonnes worldwide," be said.

The EAA clearly expects the European Community limit of 60,000 tonnes on CIS imports in tbe four months between August and November to be extended. Yesterday Mr Dick Dermer, the association's president, suggested that tbe US and Japan should follow suit with quotas of their own. Mr Flaa said that the influx of CIS metal to traditional western markets was more or less equivalent to the increase in world stocks of primary aluminium. This left "no doubt that the present imbalance in the aluminium market is primarily a consequence of the eastern metal".

World total primary aluminium stocks amount to around 4.6m tonnes, of which more than 2m tonnes is in London Metal Exchange warehouses. Western world production is 15m tonnes, with demand at

Aluminium

European primary (tonnes m)



15.5m tonnes a year. Best estimates put CIS output around 3m tonnes.

Mr Flaa said the European industry had tried to negotiate witb the Russian industry before approaching the European Commission. The EAA accepted that the Russian industry should have access to traditionally western markets, and tbat over a reasonable period the Russian industry would be assimilated into the world aluminium industry.

"But it is very unfortunate that it takes place under circumstances so detrimental to our industry as is the cased today" said Mr Flaa. Why should the aluminium industry carry the main burden of economic restructuring in Russia? he asked.

The EAA, wbose members employ 235,000 people, bopes that the EC quota decision will lead to furtber negotiations with tbe Russians and a long-term solution to the problem.

Mr Karl Wobbe, of Germany's VAW Aluminium, warned that world capacity had to be reduced by at least 1m tonnes. But it was an international problem, he said, and the burden should not fall on the shoulders of the EC, Russia or the US alone.

Further price falls would be a disaster, he snggested, adding that at $900 a tonne no aluminium smalters in tbe world would be making money.

Mr Dermer said that last year European primary aluminium producers were operating at 93.9 per cent of capacity and produced a total of 3.35m tonnes, down 5.2 per cent on 1991. This year European production is expected to fall a further 3.3 per cent to 3.24m tonnes. National trade statistics showed that CIS imports to the West rose from 443,000 tonnes in 1991 to 750,000 tonnes last year, of which about 80 per cent arrived in European countries. However, a further 200,000 tonnes of CIS aluminium is thought to have been shipped from the CIS to western markets in 1992, bringing the total near 1m tonnes. Most of this went directly into LME warehouses and was not cleared by customs, Mr Dermer said.

Consumption in Europe grew from 4.68m tonnes to 4.76m tonnes in 1992. But this year consumption is expected to fall sligbtly because of the economic recession, particularly in Germany.

French see faults in Blair House foundations

David Buchan explains why feelings are running so high over the farm trade accord

AT THE beart of France's differences with Brussels as well as Washington over the Blair House agreement on farm trade is the fact that it starts from different assumptions.

To begin with, Frencb agriculture weighs far more heavily in the political and emotional life of the country than the 3.5 per cent it contributes to gross domestic product. Equally important for the tricky transatlantic negotiations now in train, the French also adopt differing technical assumptions about the course of the European Community's's common agriculture policy over the intended six-year life of the Blair House accord.

It is, of course, taken as read in Paris that the EC should not agree to anything in the General Agreement on Tariffs and Trade that constrains its farmars mora than CAP reform already does. Yet in the most important commodity – cereals – the calculation in Paris is that by 1999, likely to be the final year of a Gatt farm accord, the EC will have a surplus of at least 15m tonnes, which it would be unable to sell on the world market because of the Blair House requirement for a 21 per cent cut in the volume of subsidised exports by the end of the century. By contrast, the European Commission reckons that at worst the community will and up with a surplus of around 1.5m tonnes, which could easily be offloaded as food aid.

Why tbe big difference in Paris and Brussels' guesstimates? As a senior French official explains, there are two reasons. First, in contrast to Brussels, which is forecasting productivity gains by cereal farmers of 1 per cent or less over the next six years, France predicts that the average EC cereal yield will continue to grow by 1.5 per cent a year. "This corresponds to average EC yield growth, and to rather less than French producitivity gains, in recent years," says the official.

Why the continued growth in yields when CAP reform is supposed to make European agriculture less intensive, and when French use of fertilisers has been declining from its 1989-90 peak? "Many of our farmers have realised, partly for environmental reasons, they were using too much fertiliser on their land, and with the help of an agriculture ministry campaign known as 'Fertimieux' we have been showing them how to grow as mucb with less input," the official says. "We also expect continued yield advances from genetics and the use of hybrids."

Secondly, Paris is more pessimistic than Brussels about how much of their home market EC farmers will be able to take back from imports, mainly from the US. "The commission thinks this 'reconquest' of the home market will amount to 12m tonnes by 1999," the official says. "We reckon it will only be 7m-10m tonnes, partly because of recent agri-monetary developments and the competitiveness of US cereal substitutes like corn gluten feed."

On the agri-monetary issue, Paris is hardly innocent, having recently voted to back Bonn's request for a farm price rise outside Germany to neutralise the possibility of a farm price cut inside Germany. Confronted with this, French officials merely chuckle, implying that this move had to be the trade-off for Germany backing France's campaign to re-open the Blair House dossier.

On the issue of imports into the EC, however, France is pushing for either a tariff quota to be placed on corn gluten feed (present quantities getting a duty free quota and any extra imports being hit by a tariff), or for the EC to balance any extra imports with compensating freedom to export. Here France has support from many member states, and the community has some margin of manoeuvre in the current transatlantic talks, because market access was not dealt with in the Blair House accord.

If the US proves unshakable in its Blair House commitment to the 21 per cent cut in the volume of subsidised exports, and if the EC therefore ends the century with an annual "non-exportable" surplus of some 15m tonnes, the community has only two choices, according to the French government.

Either it doubles its acreage set-aside provisions to 30 per cent; "One per cent of land set aside would reduce output by about 1m tonnes", says the official – but many French farmers already contest, or detest, having to take even 15 per cent of their land out of production; or the EC could move to mucb lower prices with an American-style deficiency payment system to make up the loss in farmers' incomes. "But such payments would be very expensive for the community budget and taxpayers, while even lower prices would pose particular problems for certain member states like Germany, where small-scale, high-cost farmers in its western region would find it hard to sell anything," says the official.

On beef, Paris and Brussels are not far apart in their appreciation of the problem, with the commission recognising that the EC might still have a difficult-to-export surplus of some 400,000 tonnes by 1999. But poultry production has soared in recent years – up by 30 per cent from 1986-89, used as the base period for the Blair House deal – in reponse to world-wide demand for white meat. Behind its demand for soma flexibility on the timing of the Blair House volume cuts is the French government's concern that "a strict application of Blair House would give a reduction of 25 per cent in the first year alone".

For all their own number-crunching about Blair House's nefarious effects, when it comes to painting their nightmare scenario French officials reach for a recent Canadian Wheat Board study. This, they claim, postulates a 2 per cent increase in world demand up to the year 2002 - which is reasonable given that some world market estimates reckon on demand growing as much as 5 per cent.

The US and Canada would be able to respond to this greater demand because a Gatt deal would bear far less heavily on their exports (deficiency payments being an allowable form of direct income support), while the EC would be stuck with much of its present support system and therefore a large unexportabla surplus. The upshot is that the EC share of the world cereals market would drop from its present 20 per cent to 8-14 per cent. "We just couldn't allow that", concludes the French official.

Protesting farmers warn that "tomorrow" may bring "American food, Japanese cars, Chinese textiles – and French unemployment" unless the controversial US-EC trade deal is modified

Danes cheesed off over colouring ban

By Hilary Barnes in Copenhagen

THE DANISH dairy industry has appealed to the prime minister, Mr Poul Nyrup Rasmussen, to intervene to reverse a ruling by European industry ministers that could seriously damage Danish exports of feta cheese.

The Danes export 80 to 100 tonnes of feta a year, mainly to Iran, which buys 50 to 70 tonnes and is the biggest single market for Danish cheese measured by volume. Greece and Egypt are other important markets.

Tha Danish feta is made from cow's milk, unlike the traditional feta cheese of the eastern European and near eastern countries, whicb is made from goat's or sheep's milk.

The community's industry ministers, meeting on Monday, approved a directive concerning the use of colouring agents in foods.

One of the additives that will be banned from now on is "patent-blue", without the use of which Danish feta would be the colour of cheddar cheese. The Danisb dairy industry believes that it will be impossible to sell yellow feta in its main markets.

The value of the export is between DKr1.2bn (£125m) and 1.5bn a year, including EC export restitution payments of DKr7.59 a kilogram. This is about a quarter of total Danish cbeese export returns, worth some DKr5.6bn in 1992.

Mr Peter Kjelstrup, information director at MD Foods, the big dairy group, blamed lobbying by the Greeks for Monday's decision. Greece has tried to prevent exports of Danish feta to Greece on tbe grounds that it is not made from the right raw materials.

Fuel shortage threatens Tajikistan's cotton crop

SERIOUS FUEL shortages, the latest manifestation of economic crisis in the former Soviet republic of Tajikistan, are threatening the cotton harvest there, reports Reuter from Tashkent, Uzbekistan.

Foreign Ministry official Mr Suleiman Rashidov said cotton harvesters faced "great difficulties" and there was little immediate prospect that conditions would improve. "The cotton harvest is still on schedule, but there are great difficulties now," he added. An agriculture ministry official said fuel was available for only 40 per cent of the country's tractors.

Supplies of fuel to Russian and other military units guarding Tajikistan's frontier against guerrilla attacks from Afghanistan were unaffected by the sbortages, a local journalist quoted a military officer as saying.

Official Tajik radio broadcast a plea from the region of Gorno-Badakhshan where it said the harvest was being gathered by hand. If extra assistance was not given some 30 per cent might be wasted, it said.

WORLD COMMODITIES PRICES

MARKET REPORT

Precious metals weakened suddenly in mid-afternoon on U.S. fund liquidation, initially in the silver and platinum markets, but subsequently in GOLD. The London bullion price surrendered what remained of last week's rally to close at $352.20 a troy ounce, down $4 on the day. Dealers said they could not pinpoint a specific reason for the selling but that without the support given to the market recently by the Russian political turmoil a move lower at some time had been inevitable. At the London Metal Exchange COPPER prices remained under pressure from bearish fundamentals and the three months price closed at $1,723.25 a tonne, down $19.25. The last signs of the recent technical supply squeeze appeared to have disappeared with the cash discount widening $3.75 to $23.75 a tonne. The NICKEL market also continued to suffer from its week fundamentals. The three months price hit a fresh 6¾-year low of $4,150 a tonne before recovering slightly to $4,165, still down $40. The gentle slide in the ALUMINIUM market continued, although some downside stability was found around 5½-month lows.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Nov)		+ or -
Dubai	$14.73-4.78z	+.405
Brent Blend (dated)	$16.77-6.79	+.435
Brent Blend (Nov)	$17.02-7.04	+.405
W.T.I (1 pm est)	$18.27-8.40z	+0.47
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$184-186	+2
Gas Oil	$174-175	+4
Heavy Fuel Oil	$60-62	-1
Naphtha	$155-157	+4
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$352.20	-4.00
Silver (per troy oz)♣	269.0c	-5.5
Platinum (per troy oz)	$360.75	+0.25
Palladium (per troy oz)	$134.75	+0.75
Copper (US Producer)	85.5c	-2.0
Lead (US Producer)	33.50c	
Tin (Kuala Lumpur market)	11.12m	
Tin (New York)	206.0c	-1.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	120.34p	+2.50*
Sheep (live weight)†♠	79.41p	-2.06*
Pigs (live weight)†	86.59p	+2.18*
London daily sugar (raw)	$254.1	
London daily sugar (white)	$264.0	-0.3
Tate and Lyle export price	£276.0	-0.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£120u	
Wheat (US Dark Northern)	£166.5u	
Rubber (Nov)♥	58.00p	
Rubber (Dec)♥	58.75p	
Rubber (KL RSS No 1 Jul)	199.5m	
Coconut oil (Philippines)§	$415.0v	
Palm Oil (Malaysian)§	$335.0z	-10
Copra (Philippines)§	$260	
Soyabeans (US)	£131.0t	
Cotton "A" index	55.30c	-0.10
Woolltops (64s Super)	237p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. z-Nov v-Nov/Dec u-Oct t-Sep/Oct x-Dec ¶London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. †♠Sheep prices are now live weight prices *change from a week ago, provisional prices.

SUGAR – LCE ($ per tonne)

White	Close	Previous	High/Low	
Dec	275.50	273.00	276.50	271.50
Mar	277.80	275.20	278.00	274.50
May	279.50	277.60	279.50	277.00
Aug	284.50	282.00	284.50	284.00
Oct	277.00	274.50	277.00	275.50

Turnover 725 (336) Paris- White (FFr per tonne): Dec 1549.00 Mar 1578.15

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low	
Nov	17.17	16.86	17.19	16.73
Dec	17.36	16.89	17.40	16.98
Jan	17.49	17.06	17.51	17.15
Feb	17.58	17.21	17.59	17.33
Mar	17.60	17.33	17.66	17.47
Apr	17.72	17.41	17.72	17.58
May	17.76	17.47	17.78	17.66
Jun	17.84	17.52	17.85	17.78
Jul	17.95	17.57	17.96	17.92
IPE Index	16.84	16.81		

Turnover 43437 (43168)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Oct	170.50	166.00	170.75	167.00
Nov	172.00	167.50	172.00	168.75
Dec	173.00	168.75	173.00	169.75
Jan	173.00	169.00	173.00	170.50
Feb	172.25	169.25	172.00	171.00
Mar	171.00	168.00	171.00	170.25
Apr	168.25	166.25	169.00	169.25
May	168.25	165.00	168.25	168.00
Jun	167.00	163.25	167.00	

Turnover 16181 (14280) lots of 100 tonnes

COCOA – LCE £/tonne

	Close	Previous	High/Low	
Sep	885	876	900	890
Dec	922	913	932	910
Mar	945	937	955	936
May	950	942	961	946
Jul	954	946	964	953
Sep	969	953	971	959
Dec	981	957	970	962
Mar	960	956	971	957
May	964	955	978	963

Turnover: 17043 (12602) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Sep 28 911.82 (902.81) 10 day average for Sep 29 914.78 (914.57)

COFFEE – LCE $/tonne

	Close	Previous	High/Low	
Sep	1220	1305	1290	1245
Nov	1186	1243	1236	1162
Jan	1180	1237	1230	1160
Mar	1186	1222	1217	1166
May	1186	1225	1214	1195
Jul	1186	1226	1270	

Turnover: 6269 (4402) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Sep 28 Comp. daily 70.44 (70.93) 15 day average 72.32 (72.50)

POTATOES – LCE £/tonne

	Close	Previous	High/Low	
Apr	88.3	88.5	90.0	88.0
May	103.5	105.0	105.0	

Turnover 191 (174) lots of 20 tonnes.

FREIGHT – LCE $10/index point

	Close	Previous	High/Low	
Sep	1417	1420		
Oct	1440	1443	1440	1435
Nov	1441	1443	1441	1435
Jan	1431	1440	1450	1420
Apr	1445	1457	1450	1445
Jul	1256	1255	1260	
BFI	1415	1419		

Turnover 264 (113)

GRAINS – LCE £/tonne

Wheat	Close	Previous	High/Low	
Nov	102.10	102.65	102.40	102.00
Jan	103.15	103.75	103.60	103.00
Mar	105.15	105.70	105.60	105.00
May	107.20	107.75	107.60	107.05
Barley	Close	Previous	High/Low	
Nov	102.50	102.90	102.75	102.50
Jan	104.75	105.10	104.85	104.80
Mar	106.55	106.80	106.80	106.55

Turnover: Wheat 220 (587) Barley 77 (201)
Turnover lots of 100 Tonnes.

WOOL

Demand at auction is maintaining its September improvement and clearances are good, with generally under 10pc passed in. Prices have been firm or slightly dearer and the market indicator in Australia on September 29 was 433c/kg, unchanged from a week earlier. Problems in getting the Budget through have helped to cause weakness in the Australian dollar in recent weeks, and this enhances wool's cheapness in international terms. Strength in the wool market is not matched in tops and yarns where pricing is intensely competitive.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 55,738 lots
Cash	1093-4	1094-5		1090.5-1.5		
3 months	1114-4.5	1114-5	1115/1109	1111.5-2	1113-4	242,345 lots
Copper, Grade A ($ per tonne)						Total daily turnover 87,850 lots
Cash	1699-700	1722-3	1696	1695.5-6		
3 months	1723-3.5	1742-3	1727/1714	1717.5-8	1719.5-20	160,454 lots
Lead ($ per tonne)						Total daily turnover 2,458 lots
Cash	365.5-6.5	364-5		365.5-7		
3 months	380-0.5	378-8.5	381.5/379	380.5-1	379-80	21,049 lots
Nickel ($ per tonne)						Total daily turnover 13,649 lots
Cash	4110-20	4180-70		4109-1		
3 months	4165-70	4215-20	4180/4150	4155-60	4155-60	45,883 lots
Tin ($ per tonne)						Total daily turnover 2,423 lots
Cash	4450-60	4430-40		4455-60		
3 months	4500-5	4480-90	4515/4480	4505-10	4480-5	11,080 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 19,718 lots
Cash	868.5-7.5	870-1	869	858.5-9		
3 months	885-3.5	887.5-8.5	889/873	878-8.5	886-8.5	82,532 lots

LME Closing £/$ rate:
SPOT: 1.5124 3 months: 1.5027 6 months: 1.4959 9 months: 1.4886
LME AM Official £/$ spot rate 1.5125

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	352.00-352.40	
Opening	356.25-356.75	
Morning fix	354.55	234.566
Afternoon fix	353.20	233.907
Day's High	355.00-355.40	
Day's low	350.90-351.30	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.73	6 months	2.86
2 months	2.86	12 months	2.87
3 months	2.88		

Silver fix	p/troy oz	US cts equiv
Spot	268.95	406.25
3 months	272.95	409.50
6 months	276.80	412.75
12 months	283.65	419.78

GOLD COINS

	$ price	£ equivalent
Krugerrand	354.00-357.00	234.00-237.00
Maple leaf	362.70-365.05	-
New Sovereign	83.00-86.00	54.00-57.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Nov	Feb	Nov	Feb
1100	21	47	15	21
1125	10	35	29	32
1150	4	23	48	46
Copper (Grade A)	Calls		Puts	
1700	43	78	28	42
1750	21	51	58	68
1800	9	33	85	97
Coffee LCE	Nov	Jan	Nov	Jan
1200	45	77	59	87
1250	27	58	91	118
1300	16	43	130	153
Cocoa LCE	Dec	Mar	Dec	Mar
875	66	109	19	38
900	51	92	29	47
925	37	78	40	58
Brent Crude	Nov	Dec	Nov	Dec
1650	70	-	15	32
1700	34	62	32	49
1750	14	47	-	-

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Oct	352.7	355.4	354.7	351.0
Nov	353.7	356.3	0	0
Dec	354.1	357.3	356.8	352.4
Feb	355.4	358.0	358.4	354.7
Apr	356.9	359.7	358.5	355.3
Jun	358.1	361.3	360.5	359.0
Aug	359.8	362.3	0	0
Oct	361.2	364.0	0	0
Dec	363.2	365.7	363.3	363.3
Feb	365.1	367.8	365.6	363.5

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	357.3	360.8	361.5	354.0
Nov	363.0	363.0	0	0
Jan	358.1	362.1	363.0	356.0
Apr	360.4	363.4	362.0	360.0
Jul	361.5	364.5	0	0
Oct	363.0	366.0	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Oct	401.2	407.8	401.0	401.0
Nov	403.3	409.8	0	0
Dec	403.5	410.0	407.5	398.5
Jan	403.8	410.3	0	0
Mar	407.8	414.1	411.0	403.5
May	410.4	416.9	411.0	408.0
Jul	413.0	419.5	413.0	409.5
Sep	415.5	422.0	415.0	415.0
Dec	419.7	426.2	422.5	416.0
Jan	420.9	427.4	420.0	420.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	75.45	75.60	76.10	75.30
Nov	75.85	76.00	76.50	76.25
Dec	76.15	76.30	76.90	75.95
Jan	76.45	76.60	0	0
Feb	76.75	76.90	77.40	77.10
Mar	77.05	77.20	77.60	77.00
Apr	77.35	77.50	0	0
May	77.65	77.75	78.45	77.70
Jun	77.95	78.00	0	0
Jul	78.25	78.30	78.90	78.25

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Nov	18.52	17.96	18.55	17.86
Dec	18.68	18.15	18.72	18.24
Jan	18.78	18.31	18.81	18.40
Feb	18.88	18.46	18.86	18.60
Mar	18.92	18.58	18.92	18.70
Apr	18.95	18.70	18.96	18.72
May	19.05	18.80	19.00	18.91
Jun	19.11	18.90	19.12	18.95
Jul	19.25	18.99	19.18	19.08
Aug	19.24	19.07	19.24	19.12

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Oct	54.60	53.44	54.70	53.60
Nov	55.50	54.36	55.60	54.55
Dec	56.30	55.19	56.40	55.40
Jan	56.70	55.69	56.75	55.85
Feb	56.76	55.79	56.75	55.90
Mar	55.90	54.94	56.00	55.30
Apr	54.80	53.99	54.80	54.60
May	53.75	53.04	53.85	53.78
Jun	53.25	52.54	53.40	53.20
Jul	53.50	52.74	53.60	53.60

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1161	1147	1174	1150
Mar	1190	1187	1274	1189
May	1204	1200	1225	1203
Jul	1224	1220	1229	1223
Sep	1252	1248	1260	1258
Dec	1264	1260	1265	1266
Mar	1269	1267	1262	1270
May	1283	1281	1300	1278
Jul	1305	1303	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	75.65	77.40	77.00	74.55
Mar	78.00	79.65	79.25	77.00
May	79.25	80.90	80.65	78.45
Jul	80.50	82.20	81.00	80.00
Sep	81.70	83.30	83.00	81.50
Dec	84.50	86.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	9.35	9.49	9.47	9.28
Mar	10.29	10.29	10.33	10.17
May	10.43	10.40	10.44	10.31
Jul	10.50	10.45	10.50	10.40
Oct	10.50	10.47	10.50	10.40

COTTON 50,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	56.68	57.10	56.95	55.85
Dec	58.31	58.91	58.69	57.60
Mar	59.85	60.37	60.00	59.25
May	60.39	60.89	60.60	59.85
Jul	61.00	61.50	61.25	60.60
Oct	61.25	61.75	0	0
Dec	61.32	61.93	61.65	60.95
Mar	61.80	62.60	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	132.30	130.86	134.00	129.50
Jan	132.40	130.75	133.70	129.60
Mar	133.30	131.80	134.25	130.00
May	133.95	132.55	134.50	130.60
Jul	134.70	133.55	135.00	133.50
Sep	134.10	134.95	133.10	131.50
Nov	134.10	134.86	0	0
Jan	134.10	134.85	132.00	132.00

INDICES

REUTERS (Base:September 18 1931 = 100)

Sep 29	Sep 28	mnth ago	yr ago
1583.2	1587.0	1629.4	1550.1

DOW JONES (Base: Dec. 31 1974 = 100)

	Sep 28	Sep 27	mnth ago	yr ago
Spot	118.86	119.38	123.52	115.91
Futures	126.15	127.10	128.73	114.34

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	627/2	631/4	630/0	623/2
Jan	634/0	637/6	637/0	630/4
Mar	640/4	643/6	643/6	637/4
May	645/2	648/4	647/0	642/2
Jul	649/2	652/4	651/0	646/4
Aug	648/0	650/0	649/0	645/0
Sep	631/6	634/0	633/4	631/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Oct	23.58	24.08	23.90	23.44
Dec	23.71	24.14	24.00	23.53
Jan	23.75	24.12	23.94	23.58
Mar	23.79	24.14	23.95	23.54
May	23.80	24.10	23.90	23.52
Jul	23.68	23.95	23.85	23.47
Aug	23.50	23.75	23.70	23.35
Sep	23.30	23.60	23.30	23.15

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Oct	192.0	192.4	192.6	190.9
Dec	192.1	192.2	192.8	190.9
Jan	192.9	193.3	193.7	191.7
Mar	195.1	195.4	195.7	193.7
May	196.6	196.3	196.8	195.6
Jul	198.4	198.4	198.5	196.6
Aug	198.1	198.0	198.5	197.8
Sep	198.1	198.0	198.5	198.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	240/6	243/2	242/4	239/6
Mar	248/4	250/6	250/0	247/4
May	253/4	255/4	254/6	252/4
Jul	256/4	258/2	257/4	256/0
Sep	253/2	254/4	254/4	253/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	317/4	315/0	318/0	313/2
Mar	321/6	319/6	322/0	317/4
May	317/2	317/2	318/0	314/2
Jul	309/0	309/0	309/4	305/2
Sep	313/0	313/0	313/0	310/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	73.025	72.825	73.500	72.700
Dec	73.675	73.350	74.325	73.650
Feb	74.625	74.200	74.950	74.350
Apr	75.850	75.425	76.150	75.525
Jun	72.175	71.800	72.650	72.000
Aug	70.900	70.500	71.250	70.775

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Oct	47.225	47.550	47.500	47.150
Dec	47.250	46.875	47.600	46.825
Feb	46.650	46.400	47.025	46.300
Apr	45.100	44.975	45.450	44.975
Jun	50.150	49.800	50.250	49.875
Jul	49.100	49.000	49.200	48.900
Aug	47.500	47.460	47.800	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	51.575	50.450	52.350	50.450
Mar	51.450	50.150	52.100	50.150
May	51.700	50.500	52.500	51.450
Jul	51.750	50.700	52.300	51.000
Aug	51.225	50.500	51.450	50.600

LONDON STOCK EXCHANGE

Shares rally after early profit-taking

By Terry Byland,
UK Stock Market Editor

SHARE PRICES in the London stock market were overshadowed yesterday by tonight's close of trading for the third quarter of the year and also by an uncertain response to the auction of £3.25bn in British government securities. Profit-takers held sway for most of the session but equities rallied towards the close as gilt-edged securities turned higher.

Once again, international factors took a back seat in a stock market focused nearer home. Optimism on domestic interest rates receded somewhat as sterling eased and markets assessed prospects for the UK November budget and the season of annual conferences of political parties.

Fund managers' attention was captured by two significant corporate developments, and rumours of at least one other big share placing on the engineering pitch, as well as by a £511m batch of rights issues.

Stock Index futures continued to affect equities, and some stock was sold in the afternoon when the December contract on the FT-SE Index challenged its Fair Value premium, effectively for the first time since the contract took over leadership of the derivatives sector. Strength in the future premium has given important support to this week's gains in equities.

Although easier at first, shares tried to rally in early trading. But a 1.8 gain on the Footsie was quickly reversed as the time for the gilt-edged auction drew near. First reports from the auction were badly received in the stock market and the Footsie was soon down more than 14 points at 3,022.6.

It was late in the session before shares began to rally on the back of gains in gilts and an initially firm start to the new Wall Street session. However, the recovery was checked when the Dow Industrial Average turned off and showed a fall of 1.12 in UK trading hours.

The final reading of 3,030.1 gave the FT-SE Index a net loss on the day of 6.8. The FT-SE Mid 250 Index was also subdued, closing 3.2 off at 3,434.4.

The big news of the day came early and occupied the attention of many big institutions. Grand Metropolitan announced the sale for £736m of its Chef and Brewer subsidiary to Scottish and Newcastle, a rival brewing group; Scottish and Newcastle hit the market with a £405m rights call to help fund the deal.

The expected placing of 54.8 per cent of Mirror Group newspapers for a total of £373m made further demands on fund managers' time and cash resources. While neither deal was unexpected, they helped distract attention from other sectors while also indicating the readiness of the institutions to accept to what are regarded as favourable corporate moves.

Seaq trading volume dipped to 511.7m shares, the lowest so far this week, and contrasting with 603.3m on Tuesday; non-Footsie business made up around 60 per cent of the total. The reduced volume as the market fell suggested that profit-taking was modest.

When the market was rising on Monday and Tuesday, retail or customer activity reached £1.25bn and £1.69bn respectively, both indicating strong investment support from the institutions.

At the close of trading, the stock market was enlivened by hints that more large corporate deals, or takeover moves, were in the pipeline.

TRADING VOLUME IN MAJOR STOCKS

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:	Sep 20	Oct 4	Oct 18
Option Declarations:	Sep 30	Oct 14	Oct 28
Last Dealings:	Oct 1	Oct 15	Oct 29
Account Day:	Oct 11	Oct 25	Nov 8

*New time dealings may take place from two business days earlier.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
3030.1 -6.8	3434.4 -3.2	1503.92 -2.75

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3032.2	3035.1	3036.8	3023.7	3028.4	3027.7	3025.7	3029.3	3030.5	3038.7	3022.8
FT-SE Mid 250	3436.0	3436.7	3439.5	3438.2	3436.5	3435.6	3435.2	3434.7	3434.6	3440.1	3434.3
FT-SE-A 350	1518.3	1518.1	1520.1	1514.7	1515.7	1516.2	1515.3	1516.7	1517.1	1520.9	1514.2

Time of FT-SE 100 high: 9.45am low: 10.58am

FT-SE Actuaries 350 Industry Baskets

Grandmet deal welcomed

THE long-awaited sale of its Chef and Brewer division by Grand Metropolitan finally took place yesterday, with Scottish & Newcastle clinching the deal in a move warmly welcomed by industry analysts.

S&N will pay £736m for the 1,600-strong chain of public houses and restaurants, which at a stroke gives it the competitive presence in south-east England it has so far lacked. However, the group will have to sell or otherwise untie some 748 houses from its enlarged estate to comply with the government's Beer Orders.

S&N shares retreated on the news, with inevitable worries over the £406m one-for-four rights issue the main culprit. The issue, which is of stock units automatically convertible into new ordinary shares, is in two stages at a total price equivalent to 390p per share. S&N finished the day 11 off at 459p in turnover of 2.9m. Analysts broadly agreed with S&N that the deal will be earnings neutral this year.

For Grandmet, the deal was the third big surprise to hit the market in the past four sessions, following on from the senior management changes announced last Friday and the £175m restructuring charge on Monday. Industry specialists said the S&N price was a fair one and the deal benefited from relief that Chef and Brewer was not parcelled off, as had been predicted at one time. Grandmet shares leapt on the news but faded to close a net 2 off at 416p. Turnover was another considerable 8.1m.

Whitbread had long been the market favourite to land Chef and Brewer. However, specialists now expect the group to turn its attention to the Harvester chain, owned by Forte, which is also concentrated in the south-east, and this was reflected in the shares, 12 lower at 529p. The asking price for Harvester could be in excess of £100m. Some optimists were even suggesting that an announcement could accompany Forte's results this morning. Forte shares were steady at 237p.

MGN stock placed

The placing of the 54.8 per cent holding in Mirror Group Newspapers belonging to the late Mr Robert Maxwell's private companies finally went ahead yesterday, after a week of intensive pre-placing by brokers for the companies' administrators. More than 219m shares were placed with a variety of institutions, although the strike price of 170p was a little below that which had been expected. The sale raised £373m.

One dealer involved in the placing reported that there was virtually no stock coming back into the market from the offer and that this had been a main plank in the share price's support yesterday. The stock closed at the 170p strike price, down 7. Media analysts said the stock was unlikely to go very far in the short term as the whole sector fretted over the threat of VAT on newspapers in the November budget, and the impact of the recent price war among the press.

Rolls-Royce rises

Aero-engine manufacturer Rolls-Royce firmed 2 to 149p on suggestions that the rump of its £307m rights issue had been placed.

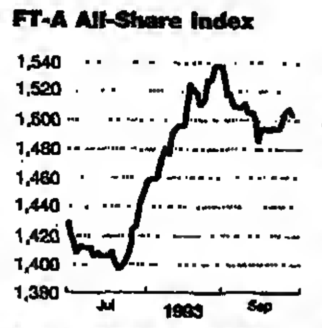
Researchers were surprised by reports of an 87 per cent take-up of the issue, in view of the poor sentiment that initially greeted the cash call.

Hoare Govett, the group's broker, was understood to have successfully placed the rump of around 31m shares yesterday at 145p, following a bought deal in which it is believed to have paid 144½p for each of the shares. The stock was said to have been quickly taken up, with two large institutions purchasing the majority.

However, concern remains that part of the new shares may have been taken up by overseas institutions. Earlier this year Rolls-Royce said that overseas holdings had reached 29.5 per cent, the limit allowed under its articles of association. The owners of the new stock will not be known until the registration date of October 25, but analysts are confident that the government will soon make an announcement raising that ceiling to around 49 per cent.

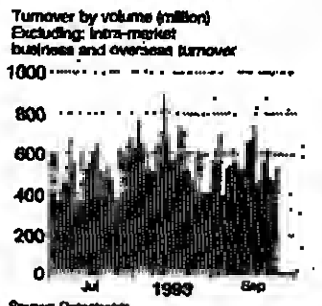
Mr Brian Newman at agency broker Henderson Crosthwaite remains positive on Rolls-Royce and predicted: "With the balance sheet straightened, and the raising of the limit on foreign holdings, the shares could rise to the original issue price of 170p."

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Source: Datastream

Closing volume on the Seaq screen remained at 3.1m shares.

Slough active

A late buzz of activity in Slough Estates was enough to prompt a raft of rumours that the company was being closely eyed by British Land and its partner Quantum Fund. The two groups, the latter headed by the billionaire investor Mr George Soros, formed a £1bn partnership earlier this year to take advantage of the recovering property market. Slough shares closed up 2 at 254p. Turnover was an above-average 1.5m. One analyst said that a bid for Slough would need to be pitched at around £3-a-share to take into account not only the premium to asset value but the premium in the group's shares to the market.

In the aerospace sector, dealers reported a small amount of switching from Rolls and into British Aerospace where the shares retreated sharply in the last half-hour of trading. They finished 10 down at 420p.

The market cheered the 35 per cent jump in full-year profits to £9.4m from engineering group Adwest. The company also said it was making a one-for-four rights issue at 140p a share to raise £22.2m for growth and development as well as acquisitions. The shares raced 11 ahead to 183p.

Continuing worries about the weakness in GKN's European markets along with the recent profit downgrading form several brokers saw the shares continue to slide. They lost another 7 to 468p.

Profit-taking was said to be the cause of the decline in T & N where the shares eased 4½ to 192½p, though support was seen for Lucas Industries, which reports figures next month and the shares hardened 1½ to 150p.

Full-year profits from Costain were £69.4m compared to £2.5m in 1992, although this was largely due to the sale of Australian coal mines. The company also announced a £83.9m rights issue, bringing much-needed funds to the indebted house builder. Building analysts are forecasting 1994 profits of around £15m. Turnover reached 11m and the shares closed up 4p to 37p.

Berkley Group jumped 6p to 439p as SG Warburg upgraded its profits forecast, but later fell back to 432p as the gains were consolidated.

Chemicals were noticeably quiet, drifting with the market. ICI lost 6p to 714p and BOC lost 3p to 627p. In motors, Lucas gained 1¼p to 150p in anticipation of good forthcoming results.

Textiles firm Dawson International fell 2p to 194p as talk of downgrades were heard ahead of an institutional presentation today.

Electricty untility shares came out of the doldrums to score sizeable gains, with yield considerations again being mentioned as the reason. Among those moving forward, South Wales jumped 13 to 614p and Northern 8 to 605p.

Shares in international mining group RTZ came under pressure after James Capel was reported to have downgraded profit estimates and weakening metal prices. The shares lost 18 to 684p with Capel reported to have reduced its current year estimate by £15m to £375m.

Worries about tax increases on tobacco ahead of the UK budget in November were said to have been responsible for the decline in several tobacco related stocks. BAT eased 9 to 485p, while Rothmans International "B" shed 11 to 635p.

The broker's profits downgradings in international conglomerate Hanson earlier this week, in the wake of the continuing strike at Peabody, its US coal operation continued to exact a toll. The shares lost another 4½ to 249½p. Volume was 6.5m.

Royal Bank Of Scotland were once again boosted by speculation that it was planning to float off its Direct Line Insurance business. They closed 8 ahead at 324p.

Lloyd Thompson moved 5 ahead with Strauss Turnbull and NatWest securities said to have been recommending the stock. SG Warburg advanced 7 to 791p, as dealers assessed the benefits of the sale of Mirror Group shares.

MARKET REPORTERS:
Joel Kibazo,
Christopher Price,
Saqib Qureshi.

■ Other statistics, Page 25

FINANCIAL TIMES EQUITY INDICES

	Sep 29	Sep 28	Sep 27	Sep 24	Sep 23	Year ago	* High	* Low
Ordinary share	2323.8	2329.5	2321.8	2309.1	2312.4	1880.8	2414.2	2124.7
Ord. div. yield	4.01	4.00	4.01	4.03	4.03	4.78	4.52	3.82
Earning yld % full	4.72	4.70	4.72	4.75	4.74	6.94	6.38	4.51
P/E ratio net	27.08	27.15	27.07	26.86	26.93	18.25	28.30	19.40
P/E ratio nil	24.97	25.05	24.88	24.79	24.85	15.93	26.14	16.14
Gold Mines	180.5	179.4	180.8	178.9	173.9	74.2	249.2	80.0

*for 1993. Ordinary share index since compilation: high 2414.2 31/8/93 - low 49.4 26/6/40
Gold Mines Index since compilation high: 734.7 15/2/83- low 43.5 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2325.5	2328.6	2328.5	2320.0	2321.3	2322.3	2321.1	2323.3	2326.2	2328.8	2318.9

Volume	Sep 29	Sep 28	Sep 27	Sep 24	Sep 23	Year ago
SEAQ Bargains	28,827	30,142	27,944	26,242	27,524	20,685
Equity Turnover(£m)†	-	1888.9	1248.2	1459.9	1632.2	1532.8
Equity Bargains†	-	33,407	30,838	30,107	31,274	25,178
Shares traded (ml)†	-	623.4	467.1	481.1	618.5	550.9

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate. 48p at all other times.

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (89). [illegible]

NEW LOWS (28).
BRITISH FUNDS (4) Treas. 13¾pc '93, Exch. 13½pc '94, Treas. 14½pc '94, Treas. 14pc '98, BREWERS (1) Guinness, BUSINESS SERVS (1) Penna, ELECTRICALS (1) Neotronics, ELECTRONICS (1) Litx Printing, FOOD MANUF (1) Yorkshire Fd., FOOD RETAILING (3) Iceland, Morrison (Wm), Do 5½pc Pf., HEALTH & HSEHOLD (1) Life Sciences, HOTELS & LEIS (1) Tomorrows Leis., INSCE BROKERS (1) Alex. & Alex., MEDIA (1) Fitch, OTHER INDLS (1) Kelsey, STORES (1) Hampden, TEXTS (1) Dawson, MINES (1) MIM.

LONDON SHARE SERVICE

BRITISH FUNDS

OTHER FIXED INTEREST

Continued on next page

CROSSWORD

No.8,267 Set by ADAMANT

ACROSS
1 Pinpoint time of great upheaval (6)
4 Reluctant to put first green phone outside the dug-out (8)
9 Majority take in the French to annoy (6)
10 Sycophant at the home of justice? That is right (8)
12 Looked at the pipe, blocked by over slow movement (8)
13 Minor insult (6)
15 Spoil what is also left over (4)
16 Permission no longer needed for draughty shop? (3,7)
19 Slapstick is sweet (7,3)
20 Miserable day for the lawyers to come back (4)
23 Are upset being in debt, so look at the small print again (6)
25 Second subject mentioned between bridga partners was a drudge (8)
27 Sports body contains great many feeling sick at main formation (8)
28 Working late in legal endowment (6)
29 See the lad holding the cat for a capital operation (8)
30 Not of criminal protection against fire (6)

DOWN
1 Revolutionary form of passenger transport (7)
2 Dedicated English girl is upset with Open University input (9)
3 Make certain the sun is out before going outside (6)
5 Top up for nothing inside (4)
6 Abandoned token of the past that Heath upheld (8)
7 Cover when there is some panic in gilts (5)
8 Take a stranglehold (7)
11 Price/earnings ratio without a Friday movement shows bad faith (7)
14 Clearly not beautifully done (7)
17 One who is occupied with the issue (9)
18 One who accepts the consequences at last if so directed (8)
19 Taking trouble to look after the flu casualty (7)
21 He makes a mess of instilling direction into the musician (7)
22 Thanks to passing the tin around, the church is standing (6)
24 Two types of blood on the doctor's form (6)
26 Choice fruit (4)

Solution 8,266

JOTTER PAD

EQUITY FUTURES AND OPTIONS TRADING

THE STRENGTH of the stock index futures sector was tested yesterday when the outcome of the auction in the UK gilt-edged market briefly cast a cloud over equities, writes Terry Byland.

Traders admitted that there was some selling of both equities and the December contract on the Footsie, although both sectors rallied before the close of business.

Some good-sized buying was reported in the first half-hour of trading but confidence was soon undermined when bonds turned down. The December contract bounced against its fair value several times before rallying to close at a premium of 32 against the cash market. This showed a premium of around 8 points above fair value, the estimated premium which allows for dividend and financing flows. Trading volume was down to 9,026 contracts, which traders considered a satisfactory level for the penultimate trading session of the third quarter of the year.

Activity in traded options was around one-third lower at 23,364 contracts. The FT-SE 100 option, at 9,354 lots, recorded a sharp fall from Tuesday's total of just above 18,000. The Euro FT-SE option was fairly busy at 3,436 contracts, while BP headed the list of individual stock options, turning over 2,110 deals as the market continued to track the Opec meeting. Also attracting interest was Tesco (1,103 contracts).

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1993 high	low	Mkt Cap£m	Yld Gr's
Abbott Labs		18¾xd	+⅛	20⅞	15⅝	15,892	2.4
Allegheny & W	♥	654p	+6	722p	399p	317.4	3.6
Amdahl		397p	+4	591p	284p	446.8	0.0
Amer Cyanamid		36⅛	-1⅛	39⅝	31⅛	3,246	3.2
Amer Express		24¼xd	+⅛	23⅞	14⅞	11,670	2.8
Amer T & T		39¼xd	-⅛	43¾	33⅛	53,081	2.2
Ameritech		57⅞	+1⅛	59¼	46	26,339	4.3
Anheuser-Busch		30⅛	+⅛	41⅛	29⅝	8,423	3.2
BankAmerica		29⅞xd	-⅛	30⅛	27⅛	10,532	3.1
Bankers NY		53¼xd	-⅛	54⅛	42⅝	4,274	3.9
Bell Atlantic		41⅞	+⅛	42⅞	32¼	18,191	4.3
BellSouth		40⅝	+⅛	41	32⅞	19,995	4.6
Bethlehem Steel	♥	9⅝xd	—	13¼	8½	471.1	-
Bowater		1224pxd	+4	1662p	1169p	443.5	3.3
CPC		29⅝xd	-⅛	34⅝	36	4,373	3.5
California Engy		1176p	—	1479p	1056p	214.5	-
Chase Manhattan		24⅝xd	-⅛	24⅛	17⅞	3,843	3.3
Chrysler		32⅞xd	+⅛	32⅞	21⅛	9,535	1.2
Citicorp		25⅛xd	+⅛	25⅛	13⅞	9,166	-
Colgate-Palm		35⅞xd	-⅛	45⅝	32	6,616	2.7
Cont'l Bank		1737p	-5	1877p	1276p	1,755	2.3
Dana		37⅛xd	+⅛	37⅛	29⅛	1,704	2.9
Data General		645p	+23	951p	527p	178.0	-
Decora Inds	♥	110p	—	146p	104p	-	-

BUSINESS SERVICES

ELECTRICALS - Cont.

ENGINEERING-GENERAL - Cont.

HOTELS & LEISURE - Cont.

INVESTMENT TRUSTS - Cont.

CANADIANS

CHEMICALS

ELECTRICITY

FOOD MANUFACTURING

INSURANCE BROKERS

ELECTRONICS

INSURANCE COMPOSITE

BANKS

INSURANCE LIFE

INVESTMENT TRUSTS

CONGLOMERATES

FOOD RETAILING

BREWERS & DISTILLERS

HEALTH & HOUSEHOLD

CONTRACTING & CONSTRUCTION

ENGINEERING-AEROSPACE

BUILDING MATERIALS

ENGINEERING-GENERAL

HOTELS & LEISURE

ELECTRICALS

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ)
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
e Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

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AUTHORISED UNIT TRUSTS

Manulife Management Ltd (1000)F
St George's Way, Stevenage Dealings:0438-747414

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Growth Units	5¼	177.8	178.2xd	189.6	+0.3	2.38
Gilt & Fxd Int	5	103.0	103.0xd	109.5	-0.2	6.79
Intl Growth	5¼	208.7	208.1	220.4	-0.6	0.21
North American	5¼	169.2	169.8	181.5	+0.7	0.29
Far East	5¼	207.8	208.6	221.1	+0.8	1.08
UK Smaller Cos	5¼	140.2	140.4	150.7	-0.1	1.87
European	5¼	70.74	70.74	75.85	+0.15	0.38
Japanese Growth	5¼	48.62	48.62	51.70	-0.20	0.00
Managed P'folio	5¼	65.61	65.61	70.14	-0.16	1.46
High Income	5¼	182.7	183.0xd	190.7	—	4.19

Marks & Spencer Unit Trust Ltd (1200)F
PO Box 410, Chester X, CH99 9QS 0244 690096

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
M & S Inv P'folio	5½	154.6	145.0	155.1	-0.13	1.69
Do Accum	5½	182.4	182.5	173.8	-0.13	1.80
UK Sel P'folio	5½	120.5	121.2	129.6	-0.31	2.32
Do Accum	5½	138.2	137.6	146.6	-0.31	2.32

National Provident Inv Mgrs Ltd (1400)H
48 Gracechurch St, EC3P 3HH 071-623 4200

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
NPI American Acc	5½	117.35	111.80	118.38	-0.37	0.00
NPI American Dist	5½	103.04	103.28	170.46	-0.34	0.00
NPI European Acc	5½	95.16	96.44	102.14	—	0.00
NPI European Dist	5½	92.80	93.14	98.62	—	0.00
NPI Far East Acc	5½	159.8	160.9	172.1	-0.20	0.00
NPI Far East Dist	5½	167.1	158.3xd	169.3	-0.20	0.00
NPI Global Care Acc	5½	68.71	69.12	73.93	-0.23	1.98
NPI Global Care Dist	5½	66.42	66.82	71.46	-0.23	1.80
NPI O'seas Acc	5½	1206.9	1211.7	1285.9	-2.80	0.29
NPI O'seas Dist	5½	921.4	933.5xd	998.4	-2.10	0.20
NPI UK Acc	5½	620.4	622.9	685.9	-2.90	2.38
NPI UK Dist	5½	325.5	326.6	349.3	-1.10	2.38
NPI UK Extra Inc Acc	5½	79.00	78.52	83.97	-0.28	4.00
NPI UK Extra Inc Dist	5½	73.12	73.54xd	78.67	-0.23	4.08
NPI UK Spec Opp Acc	5½	85.03	86.86	92.91	-0.34	1.73
NPI W'wide Acc	5½	98.24	98.24	105.86	-0.08	0.00
NPI W'wide Dist	5½	84.12	84.12	109.85	-0.08	0.00
NPI W'wide Inc Acc	2½	40.00	67.41	72.10	-0.24	2.68
NPI W'wide Inc Dist	5½	64.84	65.25	69.79	-0.23	2.69

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (▼) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Standard Life Tst Mgmt Ltd (0730)H
3 George St, Edinburgh EH2 2XZ 0800 393777

	Init Chgs	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Managed Acc	5¼	47.12	47.12	50.07	+0.2	1.48
UK Equity Gth Acc	5¼	63.87	64.84	68.90	+0.4	1.29
UK Eq High Inc Inc	5¼	38.53	38.53	40.94	+0.2	3.38
UK Eq High Inc Acc	5¼	40.76	40.76	43.02	+0.2	3.38
UK Equity Gen Acc	5¼	67.18	68.24	61.85	+0.2	2.08
UK Equity Gen Inc	5¼	43.30	44.10	46.86	+0.1	2.08
UK Larger Cos Acc	F 7½	392.1	397.5	431.2	+1.3	3.80
UK Larger Cos Inc	F 7½	301.1	306.3	331.3	+1.0	3.80
Gilt & Fxd Inf Inc	5¼	33.22	33.30	35.22	-0.1	6.78
D'seas Larg Cos Acc	F 7½	290.7	295.8	321.9	-0.7	1.24
Nth American Acc	5¼	43.92	44.18	46.95	-0.1	0.69
Far East Acc	5¼	60.54	60.54	64.33	+0.5	0.28
European Acc	5¼	45.30	45.30	48.14	+0.3	0.70

State Street Unit Trust Mngmt Ltd (1400)F
28 King Street, London SW1 6QW 071-344 7009

Stewart Ivory Unit Tst Mgrs Ltd (1200)F
45 Charlotte Sq, Edinburgh 031-226 3271

Sun Alliance Unit Tst Mngmt Ltd (1200)F

Sun Life of Canada Unit Mgrs Ltd (1000)H

Sun Life Trust Mngmt Ltd (1200)H

Swiss Life Unit Tst Man Co Ltd (1200)F

TSB Unit Trusts (1200)F

T.U. Fund Managers Limited (1200)H

Templeton Unit Trust Managers Ltd (1200)F

Thornton Unit Managers Ltd (1200)F

UBS Gartmore Unit Tst Mgrs Ltd (1200)F

Waverley Unit Tst Mngmt Ltd (1000)F

Whittingdale Unit Trust Mngt Ltd (1200)F

Woolwich Unit Trust Managers Ltd (1700)H

Jupiter Merlin Unit Trust Managers Ltd
Jupiter Merlin Exempt Trust

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity	£13.78	14.03	-	-

Lazard Brothers & Co. Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Property Sep 22	£2075.0	2245.0	-	7.00
Inc Gth Prp Jul 12	£1440.6	1600.0	-	8.90

Lazard Investors Ltd ‡
Exempt Funds

Local Authorities Mutual Invest. Tst.*
2 Fore Street, London EC2Y 5AQ 071-588 1815

* Available only to Local Authorities

M & G Securities Ltd

For Merlin Jupiter see Jupiter Merlin

Morgan Grenfell Investment Funds Ltd
Exempt Funds

Morgan Stanley International

Murray Johnstone UT Mngmt
Murray Exempt Funds

PDFM Unit Managers Ltd

Rothschild Asset Management

J. Rothschild Fund Managers Ltd.

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

INSURANCES

AXA Equity & Law Life Assce

Abbey Life Assurance Co Ltd

Abbey National Life Plc

Acorn Life Assurance Ltd

AEGON Life Assurance Co (UK) Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

Allied Dunbar Assurance Plc - Contd.

American Life Insurance Co UK

Barclays Life Assur. Co Ltd

Black Horse Life Assurance

Britannia Life Assurance

Britannia Life Ltd

Canada Life Group

Cannon Assurance Ltd (z)

Century Life Plc

Citibank Life

City of Westminster Assurance (z)

Clerical Medical/Family Investments

Clerical Medical Investment Group

Colonial Mutual Group

Commercial Union Group

Confederation Life Assurance Co Ltd

Crown Financial Management Ltd

Eagle Star Life Assurance Co Ltd

Equitable Life Assurance Society

Family Assurance Friendly Society Ltd

Fidelity Life Assurance Ltd

Friends Provident

GT Unit Managers Ltd

General Portfolio Life Insce Plc

Assicurazioni GENERALI SpA

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hill Samuel Life Assur. Ltd

Ideal Insurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General

Liberty Life Assurance Co Ltd

Life Association of Scotland

Lifetime Assurance Co Ltd

London Life

M & G Life and M & G Pensions

M & G Life and M & G Pensions - Contd.

Manulife Group

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

N & P Life Assurance Co Ltd

National Mutual Life

Norwich Union Pensions Management Ltd

Norwich Union Life Insurance Soc. - Contd.

Pearl Assurance (Unit Funds) Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd (z)

Prosperity Life Assurance Ltd

Provident Mutual Life Assur. Assn.

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Barings Investment Mngmt Ltd

CAF - Charity Money Management

Central Board of Fin. of Church of England

Charities Official Inv Fd

Charity Fixed Int Fd/Charity Equity Fd

Credit Suisse Investment Management Ltd

Edinburgh Fund Mngrs PLC

Fidelity Investments Ltd

Foreign & Colonial Unit Management Ltd

Gartmore (Jersey) Unit Mngmt Ltd

Henderson Unit Trust Management Ltd

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Provident Mutual Life Asso. Assn. - Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Pension Funds				
Managed Ord	590.6	621.7	-1.5	-
Managed Init	413.0	438.7	-1	-
Equity Ord	908.5	957.4	-4	-
Equity Init	637.3	670.8	-3	-
Pen Ind Lkd Gilt Ord	234.2	246.6	-0.2	-
Pen Ind Lkd Gilt Init	171.4	180.4	+0.1	-
Overseas Equity Ord	429.2	451.8	-0.8	-
Overseas Equity Init	300.9	316.8	-0.5	-
Property Ord	303.2	316.2	+1.7	-
Property Init	212.5	223.7	+1.2	-
Fixed Interest Ord	364.3	383.5	-0.4	-
Fixed Interest Init	255.3	268.7	-0.4	-
Deposit Ord	292.6	307.4	-	-
Deposit Init	204.7	215.5	+0.1	-

Prudential Assurance Co

Holborn Bars, London EC1N 2NH 071-405 9222

	Bid Price	Offer Price	+ or -	Yield Gross
Prufund				
Managed Sep 29	317.5	330.8	+3.00	-

Prudential Corporate Pension Funds

50 King's Road, Reading RG1 3AH 0734 484852

	Bid Price	Offer Price	+ or -	Yield Gross
Prudential Managed Funds				
Discretionary Sep 8	£247.80	255.70	-4.10	-
Equity Sep 8	£280.40	290.32	-3.64	-
International Sep 8	£41.38	42.46	-1.45	-
Intl Bond Sep 8	£21.13	51.38	+0.28	-
Fixed Int Sep 8	£132.10	133.80	+0.18	-
Index Linked Sep 8	£96.09	87.29	+0.39	-
Property Sep 8	£113.74	120.18	+0.29	-
Cash Sep 8	£33.92	33.92	+0.03	-
Pru-Linked Retirement Plan				
Managed Sep 8	590.30	604.50	+0.70	-
Cash Sep 8	308.90	318.70	+0.30	-
Prudential Pensions Investment Account				
Pens Mngd	230.20	250.80	+0.70	-
Pens Mngd A	104.40	100.90	-0.40	-
Pens UK Eq	384.40	425.60	-2.00	-
Pens Intl	295.80	317.00	+0.10	-
Pens Global Eqty	132.40	139.40	-0.40	-
Pens Fixed	298.10	312.80	-0.70	-
Pens Index Lk	[illegible]	[illegible]	[illegible]	[illegible]

Scottish Amicable - Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds (Second Series)				
Managed	120.8	127.2	-0.30	-
Equity	117.2	123.4	-0.50	-
Property	104.5	110.0		-
International	134.0	141.1	+0.10	-
Japanese	123.0	129.5	+0.10	-
Asia Pacific	150.1	158.0	+0.90	-
European	118.2	124.5	+0.10	-
American	152.8	160.9	+0.20	-
Fixed Interest	138.0	145.3	+0.90	-
Index-Linked Gilt	129.0	135.8	+0.10	-
Cash	110.6	116.5	-	-
Pension Funds				
Building Society	175.8	185.1		-
Managed (Init)	249.6	263.0	-0.80	-
Managed (Acc)	503.5	530.1	-1.38	-
Equity (Init)	281.7	298.6	-1.70	-
Equity (Acc)	568.0	597.9	-2.70	-
Property (Init)	152.2	160.3	-0.20	-
Property (Acc)	307.6	323.2	+0.10	-
International (Init)	252.0	265.0	+0.20	-
International (Acc)	509.2	536.0	+0.90	-
Fixed Interest (Init)	243.2	256.1	+1.90	-
Fixed Interest (Acc)	490.2	516.1	+3.00	-
Cash (Init)	153.5	161.6	+0.10	-
Cash (Acc)	309.5	325.8	+0.10	-
Others				
Capital Guarantee Bond	104.6	110.2	+0.10	-

Scottish Equitable Life Assce. Soc.

28 St Andrew Sq, Edinburgh 031-556 9101

	Bid Price	Offer Price	+ or -	Yield Gross
Mixed	239.6	252.2	-0.8	-
UK Equity	230.0	238.6	-0.2	-
International	241.5	254.5	+0.4	-
American	245.8	258.8	+1.1	-
European	227.3	239.3	+0.8	-
Japan	249.3	262.5	-1.1	-
Pacific	337.5	355.3	-0.6	-
Technology	318.3	335.1	-1.6	-
Fixed Interest	180.1	189.6	+0.1	-
Indexed Linked	163.6	171.8	+0.2	-
Foreign Bond/Currency	229.3	241.4	+9.3	-
Cash	174.570	183.758	+0.021	-
Ethical	124.0	130.6	+0.1	-

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE INSURANCES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

CANADA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

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JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Revision fails to boost $

A SMALL upwards revision to second quarter gross domestic product figures in the US did little to enhance the dollar's fortunes yesterday, *writes Emma Tucker*.

The revision, from 1.8 per cent to 1.9 per cent, was welcome but not enough to dispel market views that the economy is recovering only slowly.

Dealers noted that even after the revision, the US economy would need to grow by around 2.7 per cent in the second half of the year to achieve the official 1993 forecast for growth of 2 per cent.

The continuing strength of the D-Mark further hindered the US currency. The D-Mark was buoyed by the unwinding of political tensions in Russia, and by the Bundesbank's recent money market operations, in particular its decision to set a fixed repo rate at 6.70 per cent, unchanged for three weeks. This signalled that an early German rate cut is unlikely.

The dollar closed at DM1.6135 compared with the previous day's close of DM1.6175. It was also slightly weaker against the yen, closing at Y105.15 compared with Y105.25.

European currencies were sluggish against the D-Mark with the market still pushing for interest rate cuts to spur growth. The Portuguese central bank intervened to support the escudo, which was suffering from rumours about a change in the Portuguese government's foreign exchange policy. The escudo closed up slightly at Es102.8 from a previous Es103.2.

Sterling opened weak and remained weak. D-Mark strength had much to do with its lacklustre performance although next week's Conservative party conference is keeping prospects for an interest rate cut alive.

However, many dealers are sceptical that Mr Kenneth Clarke is ready to cut the cost of borrowing. "Thoughts of a politically-motivated rate cut are remote," said Mr Stephen Hannah of IBJ International, the Japanese securities house.

Mr Brian Martin of Citibank, the US Bank agrees; "A rate cut would damage the anti-inflation credibility of Eddie George and Kenneth Clarke, and they would not want a rate cut to look so-obviously politically motivated."

The pound closed down 1¼ pfennigs at DM2.4400. Against the dollar it was little changed at $1.5125.

With movement in European currencies slight, the troubles of the Canadian dollar caught the attention of some London analysts.

They said the Canadian dollar had reached critical levels and was hovering close to the C$1.33 level against the US dollar.

"A drop this level could signal a much bigger depreciation," said one analyst.

The Canadian currency's weakness has been prompted by concerns over the budget deficit and the prospect of federal elections next month. It closed at C$1.3285 against the US currency.

£ IN NEW YORK

Sep 29	Latest	Previous Close
£ Spot	1.5125 - 1.5135	1.5135 1.5145
1 month	0.36-0.37pm	0.35 0.34pm
3 months	1.03-1.61pm	1.04 1.02pm
12 months	3.18-3.10pm	3.20 3.15pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Sep 29	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator‡
Dutch Guilder	2.19672	2.14135	-2.52	6.78	-
D-Mark	1.94964	1.90654	-2.21	6.44	-
Spanish Peseta	154.250	154.207	-0.03	4.11	6
Irish Punt	0.808628	0.818233	1.19	2.86	-4
Portuguese Escudo	192.854	196.296	1.78	2.28	-12
French Franc	6.53883	6.66905	1.99	2.05	-17
Belgian Franc	40.2123	41.0389	2.03	2.01	-18
Danish Krone	7.43679	7.74055	4.08	0.00	-28

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
‡Indicative values only. Divergence indicators are based on 15% band limitations but do not show the 2.25% band between the Dutch Guilder and D-Mark.

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls October	Calls December	Calls March	Puts October	Puts December	Puts March
121	-	-	-	-	0.12	-
122	-	2.01	-	-	0.25	-
123	0.76	1.29	-	-	0.60	-
124	0.07	0.75	-	-	0.94	0.38
125	-	0.37	-	-	1.57	0.68
Open Int	52,254	192,023	44,348	41,389	153,057	31,807

Estimated volume 32,154 † Total Open Interest 514,988
† All Yield & Open Interest figures are for the previous day.

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	NatWestminster	6
Allied Trust Bank	6	Duncan Lawrie	6	Nykredit Mortgage Bnk	6.5
AIB Bank	6	Exeter Bank Limited	7	●Rea Brothers	6
●Henry Ansbacher	6	Financial & Gen Bank	7	*Roxburghe Bank Ltd	6
B & C Merchant Bank	13	●Robert Fleming & Co	6	*(in administration)	
Bank of Baroda	6	Girobank	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	●Guinness Mahon	6	●Smith & Williamson Secs	6
Bank of Cyprus	6	Habib Bank AG Zurich	6	Standard Chartered	6
Bank of Ireland	6	●Hambros Bank	6	TSB	6
Bank of India	6	Heritable & Gen Inv Bk	6	●United Bk of Kuwait	6
Bank of Scotland	6	●Hill Samuel	6	Unity Trust Bank Plc	6
Barclays Bank	6	C. Hoare & Co	6	Western Trust	6
Brit Bk of Mid East	6	Hongkong & Shanghai	6	Whiteaway Laidlaw	6
●Brown Shipley	6	Julian Hodge Bank	6	Wimbledon & Sth West	7
CL Bank Nederland	6	●Leopold Joseph & Sons	6	Yorkshire Bank	6
Citibank NA	6	Lloyds Bank	6		
City Merchants Bank	6	Meghraj Bank Ltd	6		
Clydesdale Bank	6	McDonnell Douglas Bk	6		
The Co-operative Bank	6	Midland Bank	6		
Coutts & Co	6	Mount Banking	6		
Credit Lyonnais	6				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

Liquidity tight

CONDITIONS IN the London money market were difficult yesterday, with the Bank of England slow to remove a £1.15bn shortage.

The overnight lending rate was stuck between 6¾ and 7 per cent in the morning, before dropping to just over 6 per cent in the early afternoon after the Bank purchased £670m of bills. Late assistance of £455m cleared the shortage.

The short sterling futures contract dropped back, partly because the pound was weakening on the foreign exchanges but also because of lingering expectations for a rate cut over the next two weeks.

UK clearing bank base lending rate 6 per cent from January 26, 1993

Dealers in the money markets are less convinced of an early rate cut than their counterparts in the foreign exchange and equity markets, however.

"We are moving back towards the feeling that we had about three weeks ago that interest rates are likely to come down at the time of the Budget on November 30," said one dealer. "We do not believe that we are about to see a rate cut for political reasons, either this week during the Labour party conference, or next week when the Conservatives meet."

The December contract dropped as low as 94.34 but closed at around 94.35, down 4 basis points on the day.

The three-month interbank rate was quoted yesterday at 6-5⅞ per cent, reflecting scepticism about an early cut in rates.

Dealers are expecting a big shortage today with the end of the month, the end of the quarter and - for some institutions - the end of the half-year coinciding. In addition, yesterday's gilts auction needs to be paid for today so conditions may well be awkward.

● A decision by the Bundesbank to drain the German money market of liquidity took dealers by surprise. They had expected a more generous allocation of repo funds in the tender but in the end the central bank took DM8.5bn from the system.

All the funds were allocated at 6.7 per cent, with the Bundesbank choosing not to offer a lower rate. In spite of the withdrawal of funds, call money edged slightly lower, indicating that there are ample reserves in the system before the beginning of next month, when yesterday's repo funds will be credited. Call money was quoted at 6.80-6.90 per cent yesterday afternoon.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

هكذا من الأصل

WORLD STOCK MARKETS

CANADA

TORONTO

4 pm close September 29

MONTREAL

4 pm close September 29

INDICES

These values of all Indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ◊ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¥ Subject to official recalculation.

Euro Top-100 (26/6/90)	1093.90	1102.59	1103.43	1090.31	1133.15 (30/8)	862.73 (13/1)

**Saturday September 25. Taiwan Weighted Price; 3877.45, Korea Comp Ex; 703.55.
¥ Subject to official recalculation. *Calculated at 15.00 GMT

Base values of all Indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 25 Industrials - 264.3 and Australia All Ordinary and Mining - 500. (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Wednesday, September 29, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nikkatsu	33.1m	7	+2	NKK Corp	2.8m	260	-12
Nippon Steel	7.2m	307		Matsushita E Ind	2.8m	1,450	+10
Daiei	4.4m	1,560	+10	Isuzu Motor	2.4m	373	-8
Sankyo	3.3m	3,030	-20	Mitsukoshi	2.8m	988	+39
Tokyo Gas	3.1m	492	-3	Mitsubishi Hvy	2.2m	645	-12

4 pm close September 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14⅝	11½	AAR Corp	0.48	3.8	637	64	12⅞	12⅝	12¾	+⅛
29¾	13¾	A L Labs A	0.18	1.0	35	255	17¾	17⅛	17⅝	-⅛
67⅛	54⅝	AMP Inc	1.60	2.4	23	1672	u67⅛	66¾	62½	+⅜
72¾	55½	AMR			17	4974	55⅞	64⅞	65¾	-½
3½	1¾	ARX			14	3529	u3¾	3⅝	3¾	+⅛
51½	29⅞	ASA	2.00	4.0	27	435	41⅞	40¾	41½	-½
30¾	22⅝	Abbott Lab	0.68	2.5	17	8448	27½	26⅞	27¼	+⅝
12⅝	8½	Abitibi Pr	0.96	8.0	3	24	8½	8¼	8⅜	-¼
15¼	8¼	Acptocein			44	47	14½	14¼	14¼	-⅛
36	25½	ACE Ltd	0.92	2.8		299	33⅛	33	33	
12	10¾	ACM Gvt In	0.96	8.4		8483	11½	11⅜	11⅜	+⅛
10	9⅛	ACM GvOpp	0.80	0.1		127	9⅞	9⅞	9⅞	
9⅞	8¾	ACM Gvt Sp	0.60	8.3		8351	u9⅞	9⅝	9⅝	+⅛
11⅝	10½	ACM Gvt Sa	0.86	8.4		6831	11½	11⅛	11⅝	+⅛
11⅝	9⅝	ACM Man	1.08	9.3		431	u11⅝	11½	11⅝	+⅛
9⅞	8⅝	ACM Managd	0.72	7.7		303	u9⅞	9¼	9⅜	+⅛
12⅝	7¾	Acme Cleve	0.44	4.6	12	38	9½	9¼	9½	
8¼	6½	Acme Elect			47	49	6⅞	6½	6⅝	-¼
27⅝	18⅝	Acordia	0.44	1.8	14	21	25	24⅞	25	
18	10⅜	Acuson			32	241	11⅞	11⅝	11⅝	-⅛
21¾	18⅛	Adams Expr	0.48	2.6	6	62	18¾	18⅝	18¾	+⅛
66¼	45½	Ad Micro	3.00	8.0		476	62½	59¼	59⅝	-3⅜
32¾	17⅝	Ad Micro P	3.00	10.6	11	17774	36	28	28¼	-1¾
7¾	6½	Advest Grp	0.16	2.2	12	157	7⅛	7	7⅛	+⅛
24¾	18	Advo Inc	0.08	0.5	18	37	17	16¾	16⅞	
55⅛	41⅛	Aegon ADR	1.23	2.5	18	98	49¾	49	49⅜	+⅛
60½	43⅞	Aetna Lf	2.76	4.6	41	2086	59¾	59⅛	59½	+⅛
15⅛	11½	Affil A	0.26	1.7	01	711	u15⅛	14⅝	15	
34	26⅜	Aflac	0.40	1.2	18	1138	33½	32⅛	32⅞	+1
22⅛	16¾	Ahmanson	0.88	4.3	9	1571	20⅜	19¾	20⅜	+⅝
7¾	3⅝	Aileen Inc			4	31	3¾	3⅝	3⅝	-⅛
48½	24⅞	Air Pr Chm	0.92	2.4	15	4084	38½	38	38⅛	-½
28½	18⅛	Airbne Frt	0.30	1.3	31	533	23¾	23⅝	23¾	+⅛
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NYSE COMPOSITE PRICES

4 pm close September 29

Continued from previous page

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1993 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22	15½	0 Asia Fd	1.36	7.2	17	112	10	18½	19	+⅛
20¾	14⅞	SCOR US Cp	0.32	1.9	218	152	16¾	16¾	16⅞	+⅛
29¾	20	SPS Techno	1.28	4.7	28	13	27⅝	27¼	27⅜	+¼
15¼	12⅞	Sabine Rt	1.74	11.7	18	61	15	14⅞	14⅞	
13⅞	8⅝	Safecard	0.20	1.5	13	580	u13⅞	13¾	13¾	
23½	16⅞	Safeg'd Sc			16	112	22⅛	21⅞	21⅞	+¼
24¾	14⅝	SafetyKln	0.36	2.4	20	973	15	14¾	15	
19¾	10⅞	Safeway			28	982	19⅛	10⅞	18⅞	-¼
4¼	2	SafewayW96				27	4⅛	4⅛	4⅛	-⅛
55	37½	StJoePaper	0.20	0.4	120	117	46⅞	46⅝	46⅝	-½
37⅞	31	StJosL&P	1.76	4.8	14	6	36⅝	36½	36¾	+⅛
94	75	St Paul's	2.80	3.0	16	1086	92¾	91⅞	92⅞	+1⅝
11⅜	7¾	Salant Grp			4	369	7⅞	d7½	7¾	
75¼	39⅞	Sallie Mae	1.20	2.7	9	1708	45¼	44⅝	44⅞	-⅛
14¼	13	Salomon Br	0.32	2.3		185	13⅞	13¾	13⅞	+⅛
51⅞	34	SalomonInc	0.64	1.3	12	3436	51½	49⅞	50⅛	-⅛
27¾	23¼	SanDgo G&E	1.48	5.5	14	1284	27	26¾	26⅞	+⅛
5	3½	SantaFeEDu	0.40	8.2	48	10	4⅞	4⅞	4⅞	
11⅞	9⅛	SantaFeERs	0.10	1.6	500	1863	10⅛	9⅞	10	-⅛
40¾	35¾	SantaFePac	2.80	7.3	10	141	38⅝	38⅛	38⅛	
19	12¾	SantaFPac	0.18	0.5	12	2198	18⅝	18⅜	18⅜	
31⅛	21	Sara Lee	0.68	2.5	16	3641	23⅝	23⅛	23¼	-¼
51⅞	40⅛	Scana Corp	2.74	5.4	15	65	51⅛	51	51	-⅛
25⅝	21½	Scecorp	1.42	0.0	14	3781	23⅞	23½	23⅝	-⅛
30⅞	23⅞	SchererRP			27	384	32⅞	32½	32⅞	+¾
70¾	51¾	ScheringPl	1.80	2.7	18	2744	65¾	65⅛	65½	

AMEX COMPOSITE PRICES

4 pm close September 29

NASDAQ NATIONAL MARKET

4 pm close September 29

FINANCIAL TIMES Thursday September 30 1993

AMERICA

Dow eases as bond prices turn lower

Wall Street

US stocks eased across the board yesterday morning in the wake of declining stock index futures and bond prices, *writes Patrick Harverson in New York*.

At 1 pm, the Dow Jones Industrial Average was down 4.47 at 3,561.55. The more broadly based Standard & Poor's 500 was 1.44 lower at 460.09, while the Amex composite was down 0.37 at 456.75, and the Nasdaq composite down 0.65 at 763.01. Trading volume on the NYSE was 162m shares by 1 pm.

Although prices got off to a positive start, with the Dow climbing 10 points in the first hour of trading, they were unable to sustain the upward momentum. Two factors brought stocks back down from their highs: lower bond prices (by early afternoon the benchmark 30-year government issue was down 1/32 at 104, yielding 5.957 per cent), and falling stock index futures. Traders said that the latter was caused by the failure of the S&P 500 stock index contract to push through a technical resistance level.

The day's only economic news – a small upward revision in the second quarter gross domestic product figures from 1.8 per cent growth to 1.9 per cent growth – failed to lift sentiment. Investors will get a better idea of the state of the economy today and tomorrow when personal income and consumption figures and the September purchasing managers' report are released.

Paramount Communications climbed $1½ to $79 in busy trading after Blockbuster Entertainment announced it was investing $600m in Viacom, which is attempting to buy Paramount. The news left Blockbuster up $¼ at $29⅝, and Viacom down $1 at $60. Shares in QVC, which has also made a bid for Paramount, firmed $⅛ to $60 on the Nasdaq market.

Leading technology stocks, some of which have been in demand lately, ran into concerted selling pressure. Motorola fell $1⅞ to $102⅞, Digital Equipment gave up $⅞ at $37⅛, and IBM slipped $⅝ to $41⅞.

Rising crude oil prices lifted oil stocks. Chevron rose $1⅛ to $95⅞. Mobil $⅝ to $80⅞, Exxon $⅛ to $65⅞, and Texaco $⅝ to $66⅝. In the same sector, Phillips Petroleum climbed $1⅛ to $33⅜ after the company announced a new oil find off the Louisiana shore.

Anadarko Petroleum, up $4⅛ at $46⅞, and Amoco, up $⅜ at $55⅝, are partners in the oil field.

Among Nasdaq stocks, Braintree Savings Bank jumped $3⅛ to $16 after the company announced it was in preliminary merger talks with an unnamed bank.

Aames Financial slumped $3⅛ to $7⅞ after the company issued a profits warning that surprised analysts.

Canada

TORONTO added to Tuesday's losses and the TSE-300 composite index was down 7.33 at 3,971.50 at 1 pm. However, a strong rise was seen in the oil and gas sector, with the sub-index up 53.31 at 4,874.95.

Volume was reported at 35m shares by midsession. Among the active stocks Mitel Corp was down C$⅛ at C$10⅛.

SOUTH AFRICA

JOHANNESBURG reversed Tuesday's falls as some confidence returned to the market, with the industrials index firming 38 to 4,484 and the overall index gaining 21 at 3,792. The gold shares index, however, lost 6 to 1,548. Anglo American added R1 at R129.50 in reaction to its restructuring plans, while Minorco fell back 50 cents to R79.

EUROPE

Fiat falls 5.1% after rights issue announcement

FIAT's rights issue weighed heavily on Italian equities, *writes Our Markets Staff*.

MILAN demonstrated its displeasure with Fiat's record cash raising package, marking the shares down by 5.1 per cent. The Comit index shed 8.74 or 1.5 per cent to 593.98 as selling widened to envelop many of the blue chip issues.

Although long rumoured, the Fiat rights issue still took many analysts by surprise. They had expected the group to wait until next year, after the launch of some important new models. It fell L302 to L5,598 in heavy volume of 24m shares.

Rinascente, the retail group, remained suspended: Fiat is to offer its 58 per cent stake to shareholders. Fiat's financial services company, Ifil, which is to launch its own public offer for Rinascente, was also suspended yesterday.

Mr John Stewart, of InterEuropa, in Milan said that the market's response would have been more positive if Rinascente had been sold outside the group.

He said that the entire package would improve significantly Fiat's net debt position, improving the prospects for eventual recovery, although he cautioned that sales in a sluggish car market next year still posed a major problem for the company.

Among companies which are to participate in a syndicate of Fiat investors, Generali, the insurer, shed L1,090 to L39,350 and Mediobanca, the merchant bank, fell L210 to L15,600.

Mr Nicolo Braendli of Akros Sim in Milan believed that the rights issue alone accounted for yesterday's fall in the Fiat share price and that the market would remain volatile as investors turned their attention to the group's much higher than expected L966bn first half pretax loss.

Mr Bob Barber of James Capel in London commented: "The size of the rights issue, the extent of the losses and disappointment that Fiat has not found an external buyer for Rinascente suggest to us that the share could fall to L5,000 in the cum rights form."

FRANKFURT saw strength in insurers, and weakness in steels and engineers as the broad market continued to drift, and the DAX index closed 5.92 lower at 1,907.69.

Among insurers, Allianz saw a reiterated buy recommendation from Vereins-und Westbank, which added a likely improvement in underwriting losses and a growing demand for insurance products to the recent downtrend in interest rates. The shares eased only DM1 to DM2,554, and showed a small gain on the day in the post-bourse. However, the highly capitalised, but relatively illiquid AMB and Munich Re continued to star in share price terms, with gains of DM40 to DM1,300, and DM50 to DM3,250 respectively.

At the heavy end of the economy, the metal employers' cancellation of wage contracts was seen as an abrasive move. Deutsche Babcock fell by another DM3 to DM185.50, Metallgesellschaft by DM6 to DM348 and Mannesmann, already weakened by its rights issue, by DM4.30 more to DM305.50.

PARIS continued to mark time and the CAC-40 index settled slightly higher, up 6.53 at 2,126.80.

There was some activity among non-CAC-40 stocks with Eridania Béghin-Say gaining FFr21 to FFr816 after its announcement late on Tuesday that it was interested in acquiring Bertolli, the Italian olive oil producer. Bic, the pen and razor manufacturer, lost FFr89 or 6.7 per cent to FFr1,236, reflecting disappointment with its first half results, which also came out after trading closed on Tuesday.

There was renewed confusion over the timetabling of BNP's privatisation after a report in the local media that the date had been set for next week was denied by the government. A finance ministry official reiterated that the public sale of the 40 per cent stake would take place before Christmas. The bank's CIs shed FFr5.80 to FFr277.

MADRID's general index eased 0.15 to 286.62 but Acerinox, the stainless steel company, recovered Pta290 to Pta9,290 after losing Pta400 in heavy volume on Tuesday.

Between 2.4m and 3m of Acerinox's shares are currently being placed, representing the bulk of Banesto's 34.5 per cent stake in the company. Pricing will take place after the close today, following roadshows on the stock in London on Tuesday, and in Edinburgh yesterday. James Capel liked Acerinox in August, saying that despite industry conditions, output was rising, the company was generating profits, and that it also had a sound balance sheet.

AMSTERDAM drifted lower with early morning activity failing to follow through into late trading. The CBS Tendency index lost 0.3 to 124.0.

A slightly weaker dollar also pressured stocks, with Unilever and Akzo both slipping Fl 1.00 to Fl 197.20 and Fl 171.50 respectively.

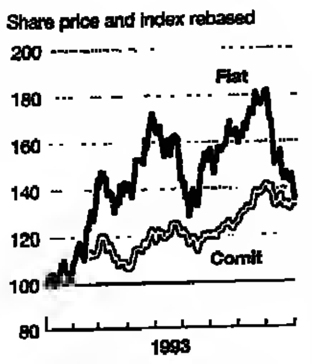
STOCKHOLM weakened in spite of a gain in Ericsson, the telecommunications group, which saw the B shares advance to a new all-time high, up SKr4 at SKr436. The shares were supported by US buying which helped to push turnover up to SKr182m.

The Affärsvärlden General index fell 6.2 to 1,289.4 in turnover down to SKr1.1bn from Tuesday's SKr1.4bn.

ISTANBUL fell back as investors locked in recent profits, the composite index closing 450.9 lower at 15,326.3.

Italy

Share price and index rebased



Source: FT Graphite

FT-SE Actuaries Share Indices

September 29								THE EUROPEAN SERIES
Hourly changes	Open	11.30	12.00	13.00	14.00	15.00	16.00	Close
FT-SE Eurotrack 100	1286.08	1287.25	1286.87	1285.46	1283.63	1285.83	1287.93	1288.31
FT-SE Eurotrack 200	1355.39	1355.39	1355.92	1355.68	1354.21	1354.77	1356.75	1356.79

	Sep 28	Sep 27	Sep 24	Sep 23	Sep 22
FT-SE Eurotrack 100	1288.96	1290.59	1274.95	1273.84	1271.89
FT-SE Eurotrack 200	1364.11	1361.41	1346.86	1347.03	1346.05

[illegible] High day: 100 - 1288.53; 200 - 1358.35 Low day: 100 - 1283.42 200 - 1352.76

ASIA PACIFIC

Nikkei recovers from intraday decline below 20,000

Tokyo

FUTURES-linked selling took the Nikkei average below 20,000 at one point, but it recovered some ground on index-linked buying in the afternoon, *agencies report from Tokyo*.

The Nikkei closed 95.31 lower at 20,077.41. It fell to a two-month low of 19,927.69 in mid-morning as initial declines set off unwinding of arbitrage-linked trade, and hit a high of 20,156.72 later in the day.

Volume rose from 235m shares to 300m. Declines led advances by 625 to 363, with 200 issues unchanged, and the broader first section Topix index was down 5.21 at 1,617.86. In London the ISE/Nikkei 50 index eased 0.74 to 1,246.99.

The market's opening weakness defied hopes that investment trusts and government insurance and pension funds would continue to buy, as they did on Tuesday, to prop up the value of equities. Brokers said their presence was minimal.

However, others said attention had simply moved elsewhere. "The Nikkei's fall below 20,000 is not very significant, as investors are now focusing on trading incentive-backed issues that are not in the average," commented Mr Masaharu Sakudo, managing director at Tachibana Securities. "Buying from investment trusts", he added, "was also limited to shares which are not in the Nikkei average."

News that major steel makers were considering giving extra days off to employees to cope with weak demand for steel depressed their share prices. Kawasaki Steel fell Y8 to Y303, NKK Y12 to Y263 and Kobe Steel Y9 to Y276.

Retailers remained firm on hopes that possible income tax cuts and deregulation would benefit them. York-Benimaru climbed Y150 to Y4,650 and Ito-Yokado Y90 to Y5,540.

Roundup

PACIFIC Rim markets were mixed, with Seoul and Karachi closed for public holidays.

HONG KONG perceived late buying of property issues by US and Japanese funds which took the Hang Seng index up 80.60 to 7,551.10. Turnover grew from HK$2.19bn to HK$2.49bn.

Henderson Land, which announced strong results last week, moved ahead 40 cents to HK$23.50, while Cheung Kong advanced an adjusted 54 cents to HK$27.30.

AUSTRALIA picked up after a slow start, the All Ordinaries index ending 9.1 higher at 1,951.4 after some end-of-quarter window dressing. News Corp rose 12 cents to a closing high of A$10.92 in volume of 4.33m shares.

BHP added 16 cents at A$16.16 after saying that it did not know whether its diamond mine project in Canada with a joint venture partner, Dia Met Minerals, would proceed. Development costs could be about US$400m.

MANILA surged at the close as investors flocked to Philippine Long Distance Telephone and Philippine National Bank after the sharp fall of the peso against the dollar. The market index rose 21.29 to 1,982.41.

PLDT added 60 pesos at 1,480 pesos and PNB 17.50 at 352.50.

NEW ZEALAND continued to consolidate, with some analysts predicting that the current quiet phase would continue until the November 6 election. The NZSE-40 Capital index closed 3.27 off at 1,926.68 in turnover of NZ$38m.

TAIWAN saw selling of speculative stocks and pessimism over a lack of positive news. The weighted index lost 15.77 to 3,832.69 in slow turnover of T$11.27bn ahead of today's public holiday. China Steel shed 60 cents to T$17.80 on media reports that the government was again making plans to resume its privatisation of the company this fiscal year, although a timetable and details have not been decided.

SINGAPORE was flat as the corporate reporting season headed for its close at the end of this week. The Straits Times Industrial index edged up 0.16 to 1,989.28.

BOMBAY became nervous as the income tax authorities seized shares of a number of companies. The BSE-30 index declined 53.59 to 2,696.45.

Four weeks ago, prices fell sharply after the tax authorities seized shares of nine companies which, they said, belonged to Mr Harshad Mehta, a broker who is at the centre of a securities scandal.

Written and edited by William Cochrane, John Pitt and Michael Morgan

Venezuela strengthens ahead of elections

By John Pitt

Venezuela showed the best performance in dollar terms last week among the world's emerging markets as investors reacted positively to comments by Mr Rafael Caldera, the independent candidate in the forthcoming presidential elections.

Nevertheless, specialists in the market remain nervous about the medium term direction of equities, and forecast unsettled trading ahead of polling day, scheduled for the beginning of December.

Mr Federico Laffan of Latin American Securities says that a number of factors encouraged trading in Venezuela last week. These included comments by Mr Caldera that, in general, economic and financial reform policies initiated by the current administration would be continued; an apparent lull in the recent spate of terrorist bombings; and stability in the level of interest rates, currently at some 50 per cent.

Access to foreign investment in Venezuela is concentrated in ADRs traded in New York, says Mr Laffan. There are around eight ADRs, a high number for the region when compared with Colombia's one and Chile's four, and this broad access has also contributed to the market's rise.

Turkey featured once again last week in the table compiled by the IFC, the private sector arm of the World Bank. Global Securities in Istanbul comments that bullish sentiment over nine-month earnings expectations, and enthusiasm for shares in companies on the government's privatisation list, have continued to push the market forward.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms Sep 24 1993	Dollar terms % Change over week	Dollar terms % Change on Dec '92	Local currency terms Sep 24 1993	Local currency terms % Change over week	Local currency terms % Change on Dec '92
Latin America							
Argentina	(11)	712.27	-2.4	+22.8	437,064.89	-2.4	+23.1
Brazil	(44)	230.36	-5.4	+84.3	37,845,635.40	+1.7	+1,714.8
Chile	(20)	441.35	+1.1	+5.5	723.00	+1.8	+12.7
Colombia[1]	(8)	471.79	+1.1	+11.0	676.66	+0.8	+10.7
Mexico	(57)	706.73	+0.7	+4.5	946.20	+0.6	+4.2
Venezuela[2]	(8)	535.62	+11.4	+3.1	1,179.26	+12.1	+26.3
East Asia							
South Korea[3]	(130)	95.97	+1.9	-2.2	102.04	+1.8	+0.3
Philippines	(11)	192.66	-1.3	+44.3	259.02	-1.0	+60.2
Taiwan, China[4]	(76)	80.23	-2.2	+8.7	80.27	-2.3	+15.1
South Asia							
India[5]	(81)	92.25	-1.5	-1.8	102.02	-1.5	+8.8
Indonesia[6]	(31)	93.99	-3.1	+60.1	107.30	-3.1	+63.1
Malaysia	(61)	237.36	+1.1	+45.1	223.28	+1.1	+41.5
Pakistan[7]	(8)	224.13	+1.8	+12.0	303.11	+1.8	+30.8
Thailand	(52)	271.94	-1.9	+18.0	271.87	-1.8	+16.5
Euro/Mid East							
Greece	(17)	216.98	+0.3	+12.1	348.36	+1.5	+22.3
Jordan	(5)	165.00	-4.4	+41.2	234.53	-4.3	+41.4
Portugal	(16)	105.88	-1.6	+37.2	122.04	-0.2	+56.5
Turkey[8]	(28)	177.55	+5.7	+165.5	1,001.94	+6.1	+273.6

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: [illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and tha Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY SEPTEMBER 28 1993 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY SEPTEMBER 27 1993 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1993 High	1993 Low	Year ago (approx)
Australia (69)	141.54	-1.1	138.37	94.18	118.03	145.65	-0.3	3.55	143.10	140.32	95.75	121.35	146.03	148.64	117.39	124.70
Austria (17)	169.59	+0.8	165.80	112.83	142.62	143.22	+0.5	1.09	168.18	164.92	112.54	142.62	142.57	180.43	131.16	181.61
Belgium (42)	147.04	+0.8	143.75	97.82	123.65	126.19	+0.5	4.56	145.83	142.99	97.57	123.65	125.51	158.76	131.18	145.94
Canada (107)	122.37	+0.0	119.64	81.41	102.80	117.28	-0.1	2.89	122.39	120.01	61.89	103.78	117.34	130.38	111.41	117.62
Denmark (32)	233.12	+1.7	227.91	155.10	196.04	208.08	+1.0	1.09	229.24	224.79	153.39	164.39	205.94	233.12	185.11	205.46
Finland (23)	109.11	-0.1	106.67	72.60	81.76	133.03	+0.5	0.79	109.17	107.05	73.05	92.57	132.43	116.56	65.50	56.55
France (97)	169.54	+1.1	165.75	112.79	142.56	150.19	+0.4	3.07	167.65	164.39	112.16	142.14	149.57	171.66	142.72	159.29
Germany (60)	128.35	+0.9	125.48	85.40	107.93	107.93	+0.0	1.95	127.28	124.79	85.16	107.81	107.81	129.13	101.59	113.43
Hong Kong (55)	297.21	+0.2	290.56	197.73	249.94	295.34	+0.2	3.45	296.57	290.80	198.43	251.48	294.80	302.14	218.82	231.54
Ireland (14)	166.68	+2.1	164.81	112.22	141.85	164.71	+1.5	3.40	165.23	162.01	110.55	140.10	162.29	173.06	129.28	146.13
Italy (70)	74.44	-0.3	72.77	49.52	62.59	67.67	-0.4	1.85	74.68	73.22	46.88	63.32	87.88	78.93	53.76	51.96
Japan (470)	153.14	+0.7	149.71	101.88	128.79	101.88	+0.1	0.81	152.07	148.11	101.75	126.97	101.75	165.91	100.75	111.13
Malaysia (69)	413.42	+1.0	404.18	275.04	347.65	406.10	+1.0	1.70	409.27	401.31	273.83	347.03	402.26	413.42	251.88	249.68
Mexico (19)	1670.87	-0.5	1633.51	1111.84	1405.10	5697.93	-0.3	0.87	1679.38	1646.72	1123.67	1424.04	5715.93	1771.58	1410.30	1196.46
Netherland (24)	184.65	+0.7	180.52	122.65	155.28	152.96	-0.2	3.58	183.37	179.61	122.89	155.50	153.29	187.18	150.39	168.88
New Zealand (13)	59.47	-0.4	58.14	39.57	50.02	57.23	+0.1	3.90	59.72	58.55	39.96	50.86	57.16	62.96	40.56	40.79
Norway (22)	171.06	+0.5	167.23	113.81	143.85	164.67	+0.0	1.60	170.18	166.87	113.87	144.31	164.64	177.44	137.71	143.31
Singapore (38)	291.81	+0.6	285.28	194.14	245.39	213.88	+0.8	1.81	290.07	284.43	194.09	245.87	212.61	291.81	207.04	187.54
South Africa (60)	201.30	+1.8	196.79	133.92	169.27	187.10	-0.4	2.80	167.50	193.66	132.15	167.47	187.89	215.29	144.72	175.97
Spain (43)	137.28	+1.0	134.21	91.33	115.44	135.93	+0.6	4.20	135.93	133.29	90.95	115.26	135.11	140.97	115.23	119.03
Sweden (36)	161.65	+0.1	187.37	127.51	181.17	228.11	+0.4	1.48	181.40	167.67	128.08	162.30	227.24	196.23	149.70	158.62
Switzerland (50)	141.24	+0.6	138.09	93.98	118.79	123.82	+0.0	1.75	140.05	137.33	93.72	118.77	123.77	141.24	106.91	121.64
United Kingdom (218)	167.58	+0.8	183.38	124.79	157.73	183.38	+0.3	3.90	186.43	182.80	124.73	158.07	182.80	181.70	162.00	179.61
USA (520)	188.73	+0.0	184.51	125.57	158.72	188.73	+0.0	2.72	188.78	185.12	126.33	160.09	188.79	189.40	175.38	169.89
Europe (748)	157.85	+0.7	154.32	105.02	132.75	146.93	+0.2	3.07	156.73	153.68	104.87	132.90	146.59	159.39	133.82	143.70
Nordic (113)	180.92	+0.5	176.87	120.37	152.14	186.76	+0.5	1.32	180.03	176.53	120.46	152.66	185.79	183.23	142.13	147.59
Pacific Basin (714)	157.77	+0.6	154.24	104.97	132.68	109.52	+0.1	1.08	156.61	153.76	104.93	132.97	109.37	168.80	105.89	115.21
Euro-Pacific (1462)	157.70	+0.7	154.17	104.61	132.80	124.62	+0.2	1.90	156.87	153.62	104.82	132.84	124.40	162.86	117.26	126.73
North America (627)	184.62	+0.0	180.49	122.84	155.26	183.88	+0.0	2.72	184.87	181.08	123.58	156.62	183.95	185.59	171.51	168.63
Europe Ex. UK (530)	138.80	+0.8	135.69	92.36	118.74	125.73	+0.2	2.53	137.72	135.04	92.16	116.80	125.51	139.50	112.51	122.07
Pacific Ex. Japan (244)	203.43	+0.0	198.88	135.36	171.09	190.24	+0.2	3.03	203.51	199.55	136.18	172.59	189.83	205.61	152.70	155.15
World Ex. US (1648)	157.89	+0.6	154.36	105.05	132.76	126.51	+0.2	1.93	156.88	153.83	104.98	133.03	128.31	162.89	118.51	127.55
World Ex. UK (1950)	186.20	+0.4	161.51	109.91	138.94	142.01	+0.1	2.05	164.60	161.40	110.14	139.59	141.92	168.50	134.22	137.19
World Ex. So. Af. (2108)	167.06	+0.4	163.32	111.15	140.50	145.35	+0.1	2.22	186.43	163.20	111.37	141.14	145.22	170.43	137.29	140.71
World Ex. Japan (1698)	176.56	+0.3	172.81	117.46	148.50	170.80	+0.1	2.85	176.12	172.89	117.88	148.36	170.68	177.11	157.47	157.93
The World Index (2168)	167.16	+0.4	163.44	111.23	140.59	145.74	+0.1	2.23	166.53	163.28	111.43	141.22	145.82	170.42	137.32	140.88

Latest prices were unavailable for this edition.